MAY 1951

CREDIT and FINANCIAL MANAGEMENT

Experience—or expediency?
Convention keynote address

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How one company made a credit
plan for an over-bought market

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The credit executive must be
a one-man business clinic

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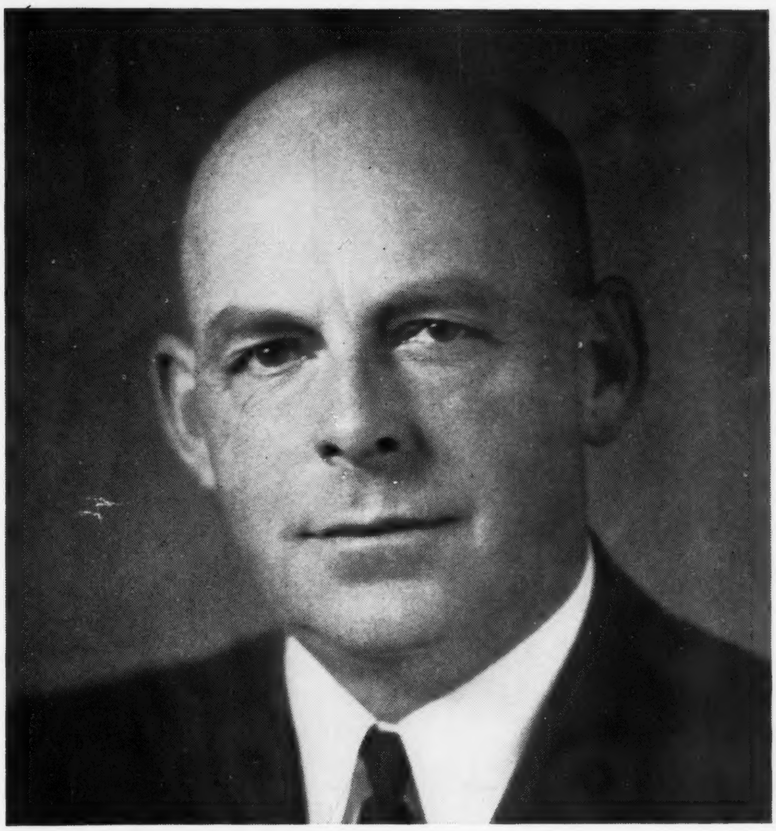
NACM plans move about June 1
after 25 years at old address



Credit starter to bank president . . . See page 3

A publication of

The National Association of Credit Men

A NATION'S SCHOOLROOM

Birthplace of McGuffey's Readers . . .

A woman's prayers, overheard in a lonely forest, launched the career of one of America's foremost educators, William Holmes McGuffey While riding along a trail in 1818, the Reverend Thomas Hughes, a prominent pioneer, heard a woman praying that her children might receive an education. As a result of his investigation he arranged to have her stepson William McGuffey attend the Old Stone Academy in Darlington, Pa. Though the family considered this episode a miracle, in later years McGuffey himself used to remark quizzically that his practical stepmother probably timed her prayer to be heard both by the Almighty and His earthly representative.

Born on the Pennsylvania frontier in 1800, McGuffey as a boy received only rudimentary education. Even after entering the academy his home duties prevented full-time attendance. He memorized his lessons, however, and recited them aloud while at his chores, thus developing his renowned oratorical ability and the memory which enabled him to repeat verbatim many books of the Bible.

After working his way through Washington College and teaching summers, McGuffey became a professor at Miami University in Oxford, Ohio. Here in 1833 he and his wife moved into their new home (now owned by Miami University) where the idea was born for the readers which made his name a household word. Here, with his own and neighbors' children, he tested his theories of education, often holding classes outdoors with pupils seated on logs. His highly successful series of readers incorporating his teaching methods proved far superior to earlier textbooks not only in their carefully graded material but in the use of numerous illustrations which appeared in later editions.

A striking figure in his black bombazine suit and stovepipe hat, McGuffey was an unforgettable teacher and his readers had untold influence on the mental and moral development of generations of schoolchildren.

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Editorial

Need for an ethical revival

PERHAPS one of the reasons the United States has made so much progress in comparison with some other nations is that we had reasonable political stability. Many countries in this hemisphere have been plagued with revolution, counter-revolution, and change of government so frequently that not only commerce and industry but the people themselves were constantly kept off balance. Some of these nations have indulged in government practices which would have been considered highly unethical and immoral in our own nation. Payments to public officials for favors and graft on public works became so commonplace that it was almost an accepted practice acquiesced in by an indulgent people.

It is only in recent years that we too have drifted towards practices which if not illegal are unethical, selfish and immoral. We have seen special privileges granted to pressure groups, taxpayers' money made available to the unworthy if they had the proper political influence and policies of cash distributions immediately preceding elections. All of these practices are not in keeping with our tradition. When these practices are acquiesced in or even condoned as normal political rewards it is only natural that this whole attitude of mind would filter down through and among the people.

It is little wonder, therefore, that our nation is disturbed at the growing evidence of the practice of racketeering, gambling, fixing and political influence alliances. This nation needs an ethical revival and the starting point of it is in our own government. Unless we have it there will be a diminishing confidence in government and a breakdown of ethical standards in all of our relationships.

Henry H. Heimann

HENRY H. HEIMANN,
EXECUTIVE MANAGER

THIS MONTH'S COVER

Arthur H. Quay, recently elected president of the First National Bank of Minneapolis, is one of those examples of a credit executive who started at the bottom and arrived at the top. He started in the credit department of his bank 33 years ago and moved up step by step—manager of the credit department, assistant cashier, vice-president, director and now president. He also serves as director of two other banks, a service corporation and an insurance company.

As in his banking career, so in his association work Mr. Quay has served in every capacity from committee member to president, to which office he was elected in 1937. He is presently a member of the Minneapolis Association's advisory board and lends his vast credit and banking experience to that organization. He also lectures frequently before the Minneapolis chapter of the National Institute of Credit.

Mr. Quay is active in Community Chest work and has served on his County chest council as treasurer for five years. He is active also in church work. He is married and the father of four daughters.

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LETTERS TO THE EDITOR

Foreign trade

New York

The article, "To Avoid Unnecessary Risks in Foreign Trade, Insist on Letters of Credit for Export," in your March issue should prove of extreme interest to exporters, especially those who have been extending credit where credit is justified. Because of selective extension of terms, under the direction of a qualified resourceful credit executive of sound judgment, many exporters are now, as in the past, conducting a substantial and profitable volume of export business on terms other than letter of credit with a loss ratio in many cases smaller than those experienced on domestic transactions.

Export organizations which are not restricted to doing business on a letter of credit basis because of industry or company policy would undoubtedly testify that the major portion of their volume is on terms other than letter of credit. It is reasonably certain that in instances where credit terms on business are properly analyzed on the basis of existing factors applicable to the location of the customer, credit losses would prove negligible and much profitable business procured which would otherwise be lost to competition. I believe we may assume that no good credit executive would continue to extend credit to customers merely as a "favor" if it were otherwise unwise to grant terms.

Before putting into effect any revision in policy changing from the extension of mixed terms to customers to a policy of letter of credit terms only, it would seem advisable to take into consideration the following factors along with any other elements involved:

Generally speaking, devaluation of foreign currencies went into effect several years ago.

There is considerable discussion today as to whether or not some of these currencies are under-valued as related to the dollar; and due to inflation, we perhaps would find some uneasiness on the part of foreigners concerning their holdings of dollars rather than their own currency.

Foreign dollar reserves have been increasing steadily and substantially.

Some countries have dollar exchange available in excess of dollar requirements for present rate of importation of U. S. goods.

Foreign dollar import licenses issued for importation of dollar purchases of U. S. goods are in excess of our ability to fill the orders.

Recent estimates of U. S. merchandise imports from foreign countries this year are eleven billions, plus an estimated additional eight billions payable to foreign countries in dollars for services, private and government gifts and loans.

The major portion of export sales are made on terms other than letter of credit. As of February 28, 1951, fifteen reporting banks in the Second Federal Reserve District were holding drafts for collection from buyers in Latin American Countries aggregating 119 millions. On the same date these banks had outstanding confirmed letters of credit from the same countries aggregating 270 millions. To the figures on outstanding draft collections, we would have to add the total of open account business conducted by exporters not covered by drafts.

Various trade and credit association groups report their members as having highly favorable credit experience in relation to volume and overall losses as being inconsequential.

Very truly yours,
A. E. Gotsch
The Studebaker Corporation
Export Division

The letter contest

Westport, Conn.

In your January issue, the prize-winning letter of Mr. D. D. Kelly carries a first paragraph reading "It is only natural that long years of association with a customer *imbues* us with a strong feeling of appreciation for his support and a genuine interest in his welfare."

Several of our English experts in the office believe that the paragraph is incorrect, and should have read as follows: ". . . . *imbue* us with a strong feeling. . . ."

We checked with an English scholar and are informed that Mr. Kelly should have used the word "imbue."

It was a good letter, but we thought we would bring the mistake to your attention.

W. E. Fertman
The C. B. Dolge Co.

COMING EVENTS

1951

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September 27-28
Northwest Conference
Tacoma

◆

October 17-18
Tri-State Conference
Lincoln, Neb.

◆

October 18-20
Tri-State Conference
Syracuse, N. Y.

◆

October 19-21
Ohio Valley Regional Conference
Cleveland

◆

October 20-21
Midwest Wholesale Credit Women's Conference
Cleveland

THIRTY DAYS IN WASHINGTON

A check list of items of interest to Financial Executives

PRICE CONTROL FOR MANUFACTURERS: On April 24 Director of Price Stabilization Michael V. DiSalle announced Ceiling Price Regulation 22 which will affect 75,000 manufacturers throughout the country under a new price control system. The new order becomes effective May 28 and will limit all firms to pre-Korean prices plus actual factory payroll or material cost increases. The new order limits increases on most materials up to and including December 31.

Under this new order the base period is April 1 through June 24, 1950 and the ceiling price is the highest base period price of a commodity with adjustments for factory or payroll and material cost increases. Ceiling Price Regulation 22 applies to sales by all manufacturers including exporters except sales at retail and sales of commodities especially exempted. Under this order manufacturer means a producer processor, assembler, finisher, printer or fabricator. It does not cover anyone who merely packages, labels, markets or sells a commodity or combines commodities without substantially altering them.

Every manufacturer should write at once to the Office of Price Stabilization, Washington,D. C., or to the nearest office of that agency within its territory to obtain a copy of this regulation so as to be prepared for a new price list to go into effect on May 28, 1951.

In a "fact sheet" issued by the Office of Price Stabilization the following example of the aggregate method, simplest for most manufacturers for figuring cost prices under this new Regulation 22, is as follows:

Net sales for last fiscal year in 1950.....$1,000,000		
Increase in materials costs	$100,000	
Decreases in costs	50,000	
Net increase in costs		50,000
Materials cost adjustment factor ($50,000 divided by $1,000,000.......5%		

The 5 per cent is added to a commodity's base period price.

Materials cost changes up to December 31, 1950, may be included, or up to March 15, 1951, in the case of raw materials, imports, basic ores and metals, and other materials not covered by the regulation.

Price Regulation 22 does not apply to sales by manufacturers of the following commodities; most of them are now or are to be covered by other O.P.S. regulations: raw agricultural products, raw forest products, fuels, industrial materials, chemicals, hides and skins, leather, stone, clay, textiles, apparel and footwear, tobacco products, passenger automobiles, food and kindred products, precious jewelry, works of art, publications and lead pencils

REGULATION W CONSUMER CREDIT: Effective April 1, 1951, the Federal Reserve Bank issued an order designating automobile appraisal guides for the purpose of Regulation W. A copy of this memorandum may be obtained through your bank or any Federal Reserve office.

WHERE TO CHECK ON LOAN APPLICATION: The Voluntary Credit Restraint Committee created pursuant to the program for voluntary credit restraint as authorized by the Defense Production Act of 1950 has appointed 20 regional committees to which inquiries by lenders may be addressed regarding lending activities under this program. One such committee is located in each Federal Reserve District.

Experience—or Expediency?

By HENRY H. HEIMANN

Executive Manager, National Association of Credit Men

TWENTY years ago, in this same room, we met together in the shadow of a great trouble. Today we meet in the shadow of a more serious trouble, a crisis none of us envisioned in 1931. Then we met in the fear that our business structure might tumble about our heads from economic starvation. Today we meet in the fear that our business structure may tumble about our heads from economic drunkenness. Then we fought our way out of our difficulties by facing facts. How are we to fight today?

We are credit men, mercantile and bank credit men who think and talk alike. We live on facts. Propaganda doesn't feaze us. Double-talk doesn't fool us. High sounding maxims and unfulfilled promises do not influence us. When a difficult situation confronts us we cope with it, swiftly, definitely, basing our decisions on facts and nothing but facts. If we haven't the facts we go to our Interchange bureau to get them. If the facts show an account is in difficulties we turn to our Adjustment and Collection bureaus before the account goes beyond redemption.

No other profession in the world has such frankness nor such confidence in colleagues nor such faith in facts as that of the credit executive. He knows how precious, how potent a force credit is, not only in business but in governments, too. He knows that by sticking to facts he can keep both his own company and its customers vigorous and growing. Facts, facts and facts alone are demanded. Let us look at some facts.

This is the text of the keynote speech delivered during the opening session of the 55th annual Credit Congress in Boston, Massachusetts, on Monday, May 14, 1951.

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Good government a factor

An essential foundation stone for sound credit is good government. For thousands of years people have searched for the best type of government. To this day, the ideal has not been found, and it never will be found so long as human frailties enter into it.

The American representative form of government on its record for at least a century and a half has proved to be an efficient, if not outstanding, organization to serve its people. It was founded on basic principles that insured certain rights, equitable treatment, and justice not alone to its own people but to the people of the world.

But the architects of good government can but plan it. The builders of the structure they plan must come from succeeding generations. Its administration must be founded on the desire to protect the citizen in his inalienable and legislative rights. Good government cannot come from legislation alone. It must come from the heart and soul of those who administer the legislation and make it effective. Unless there is this high morality of purpose, there is a destruction of the will for good government.

What is good government?

You would have to scour the gutters to find anyone who would not agree that good government is indispensable to a free and prosperous nation. But what is it? Just what is good government? Men and women have been debating that question for thousands of years without coming to a conclusion, but some basic principles are conceded by all of them:

It must be the guardian of the people's freedom;

It must be the champion of the people's freedom;

It must be the servant, not the master, of the people;

It must carry out the people's decisions, not make them for the people;

It must be an example to the people of industry, thrift and dignity;

In short, a good government is a completely honest government.

If a government is found to have this virtue of complete honesty then the individuals who form that government will be found to be people of industry, character and self reli-

ance. If it has not, then its failure is definitely reflected in the spirit and will of its people.

We might well pause to evaluate the trend in our own government, a government which in a century and a half has attained, or has had thrust upon it, the leadership of the world.

What is the present trend?

We said that a government should be the guardian of its people's freedom. Is there anyone willing to argue that our government has fully maintained our freedom, that it is not tending more and more towards individual restrictions? Isn't it a fact that we only feel happy about the preservation of our individual rights because other nations are much worse off than we?

We said that a government should be the champion of its people's freedom. When you consider the concentration of power in a central government that has developed in the past decades, tending more and more to control our daily lives, can it be said our government is holding to the high purpose that the framers of the constitution had in mind?

We said that government should be the servant, not the master, of the people. When you realize that about a third of your industry is for the benefit of government are we not fast approaching the position of being involuntary government employees?

We said that government should carry out the people's decisions, not make them for the people. Would anyone be so bold as to assert that the direction, control and regulation of our people in both domestic and international affairs reflects the will of the people who form the government? Would the government dare submit some of its programs both domestic and international to the vote of the people? Isn't the idea growing in government that the people are not qualified to pass judgment on these issues but must be told when, where and what to do?

We said that government must be an example to the people of industry, thrift and dignity. Can it be said that our government is attempting to administer its affairs in such a way that its citizens may enjoy the profits of their own labor? In the past twenty years the government has required 650 billions of dollars for its maintenance. This totals $43,333 for every living soul—man, woman and child—in our nation. The very word "government" has come to mean unnecessary bureaus, needless expense, ignorant intrusions.

Can it be said that a government has character when it resorts to favoritism based upon political power or pressure? Can it be said to be strong when it confiscates from the industrious and thrifty and distributes to those less industrious?

Have we lost the dignity of government? Are we exploiting government positions for personal gain or advancement?

Are we truly honest?

As to honesty in government have we forgotten the failure of our own government to keep its contract for a convertible currency. Did our own government not renege on its solemn promise? Have we not drifted to the point where the promises of political leaders in their bid for the support of the electorate are frequently deliberately false? While the government has been spending billions of dollars for world peace, it has unmercifully waged war against part of its own people. It has pilloried business. It has ridiculed opposition. It has broken the spirit of too many of its people.

It is said that we cannot remain stationary and that the world is in a constant state of flux. Justification for many changes, social and otherwise, rests upon changing world conditions. The wars brought to this nation world leadership. We were by nature and industry qualified for this leadership. It is more questionable as to how we have discharged these responsibilities. We have moved forward on an assumption that through the distribution of huge sums of money we could strengthen the world. Some aid in a critical period is, of course, essential to our leadership and a proper discharge of our responsibility to other people. But if we assume that financial aid without limitation is helpful to the world, we wholly ignore the lessons history so abundantly teaches us.

"Money, money, money"

So imbued have we been with the idea that we can cure all ills with money that the philosophy has been ridiculed on the stage and in song, "money, money, money—do you want any money today?"

We are living in such a swift age when major problems are developed in the morning and an attempt to solve them is made before noon. The old maxim that "haste makes waste" is well illustrated in world affairs particularly when you think of the major problems that have arisen because of the failure of statesmen to invoke mature judgment and deliberation and to think problems through to their logical conclusions. It can be well said that these snap-judgment decisions have placed us in the crisis we are in today. It is also a fact that internally some of our problems have resulted from impetuous action.

Make haste slowly

The ancient Romans had some good maxims too. One of them was a model of brevity—just two words—"festina lente". Literally it meant "make haste slowly". We might expand that a little and translate it "make up your mind as soon as you can but take time to prove that you have the right answer".

We must slow down a bit. Before we jump to conclusions we must consider every angle to any problem and not merely be interested in the day-by-day results of our actions. We must have vision and look ahead if our decisions are going to be wise and in the interest of better world conditions or a better national economy.

Let us give thought to just a few of the problems that confront not only this nation but the world also.

When we programmed foreign aid for Europe, some of which certainly was necessary to keep them from starvation, we did not think the problem through from two points of view. First, we did not insist in our own minds that our own economic system, which had made this help possible, should be maintained at all costs. We did not determine that the philosophies abroad, some of which are foreign to our own economic system, should be isolated abroad. Instead we assimilated some of the socialistic philosophies from abroad. The real price we paid for this aid was not the billions of dollars we earned and sent abroad but a secondary liability which looms

large in the American balance sheet today, namely, the adoption of a philosophy foreign to the American tradition. We need not have done so and with proper precautions we would not have done so.

Again, in extending aid abroad for a long time and, in fact, until recent months, we did not produce a blueprint for self-help. We did not emphasize sufficiently to the beneficiaries that this aid was temporary, that the final solution of their problems would have to come from their own efforts and industry. As a matter of fact instead of doing this we gave aid and comfort to people in power who by no means reflected necessarily the will of the majority of their nations. If it did so at election time the margin of victory was so narrow as to make it very evident we were indirectly contributing to the political future of the nation we were aiding. This certainly we did not intend to do. Our whole aid was based on a free self determination of their type of government and policies so long as they conformed to the basic human concepts.

Security not a gift

When we in our own country adopted means of social security in an attempt to make those who had labored more independent in their sunset years we did not stress the fact that this security had to be earned nor did we very well discharge our trusteeship by keeping the funds arising from this type of taxation sacred and inviolate. More important still we emphasized too greatly the benefits of the plan and in our political bids we carefully avoided all reference to the fact that these benefits had to be earned and paid for with taxes. The result is that there is a philosophy abroad in the land that these considerations are a definite government obligation. Whether or not they are earned they are looked upon as inherent rights. The result has been a discouragement of thrift and of industry as well. It has made for a dependence on government which is the most insecure of all positions. Here then is another secondary liability we have assumed.

When we subsidized agriculture and other interests we emphasized the fact that at no time in the future need the beneficiary be concerned about having an adequate income unless we had a crop failure and we even provided against that. We do not emphasize that the payments made were the result of taxes from other groups. We did not continuously drive home the fact that our action was supplementary to a natural economy and that when through the law of supply and demand these insurance features were unessential we would not continue them. No limitation was placed on these programs and the result is that we assumed here a secondary moral responsibility to maintain them in perpetunity.

He would be a fool indeed who would suggest that government is not a constantly shifting institution. Only an ignorant man would not recognize that we have been in the midst of a world revolution for years and that it has not as yet, and probably will not for some time to come, run its course. Not only have historians been well aware of the inevitability of this revolution but its coming has been prophesized again and again. Let us turn to our own country to get a prophetic statement made years ago. The late Edwin Markham seeing Millet's world famous painting of "The Man With the Hoe" was moved to write in part as follows:

"Bowed by the weight of centuries he leans
Upon his hoe and gazes on the ground,
The emptiness of ages in his face,
And on his back the burden of the world.
Who made him dead to rapture and despair,
A thing that grieves not and that never hopes,
Stolid and stunned, a brother to the ox?

* * * *

"O masters, lords and rulers in all lands,
How will the future reckon with this Man?
How answer his brute question in that hour
When whirlwinds of rebellion shake all shores?
How will it be with kingdoms and with kings—
With those who shaped him to the thing he is—
When this dumb Terror shall reply to God,
After the silence of the centuries?"

He will not be answered by a Godless, communist regime. He will not be answered by those who abandon him to his fate.

He will not be answered by those who would feed and clothe him all the remaining days of his life without helping him become more industrious to improve his own state of being.

He *will* be answered by a program that will aid him but allow him to maintain his self respect.

He *must* be answered with such a program if our world civilization is to survive.

Many changes in 20 years

Many changes have taken place in the last twenty years. These changes are not all due to war. Rather it was under the protection of war that our present socialistic trend was engendered and launched on its way. These changes unfortunately may seem on a temporary basis to be favorable. They can continue so long as there is still a reserve of funds of credit or of confidence in industry—a reserve built years ago by our fathers. The measured time for which they can be continued cannot be foreseen but it is abundantly clear that we are traveling a dead-end street and eventually must face the issue.

Some changes have been of a more permanent and favorable character, some not so favorable. Let me enumerate some of the changes that have taken place to remind you of the road we have traveled.

Our government debt is now over a fourth of a trillion of dollars.

Our tax load demands no less than one-third of our effort in support of government.

Much of the dignity of government office has gone.

The self-reliance of people is being whittled away through the paternal and socialistic programs of government.

The shift in population now numbers a growing majority of our people in the urban centers.

The respect for parents no longer is maintained to the degree that characterized our youth of yesterday.

Saving for old age is secondary to a Social Security program.

Transportation has changed the character of our living in the past twenty years.

Science has altered our way of life.

Respect for public servants has hit a new low.

The village forum has been liquidated.

Our professional attitudes have changed. To use one illustration, the country doctor is fast vanishing.

Our dependence on government is going on apace.

Our educational institutions have grown and expanded certainly but they are not meeting their responsibilities with courage. Neither the naturally brilliant student nor the plodder is given his full mead of assistance, the assistance to which he is entitled. In many cases the courses are geared to the slowest runner, leaving the brilliant man frustrated, chewing his fingernails from boredom. Or the brilliant student sets the pace and the hard-working, the desperately hard-working, unbrilliant student is left gasping and again frustrated, ripe for the brand-new classification "Dumb enough to bear arms for his country".

Thirteen suggestions offered

What can we do to make sure that we do not repeat the mistakes that have been made time after time in earlier civilizations? What can we do to ensure for ourselves a government such as our founding fathers planned for us? What can we do to shore up the credit of our nation and rebuild a firm credit structure? I have thirteen suggestions to make to you to achieve that end:

A campaign to get every man and woman to vote.

An educational program to get every person to think for himself, to be alert against false propaganda.

A campaign to show respect to those in public office who by action are demonstrating their statesmanship—and there are many more of them than we realize.

A stirring crusade to let the government know that its purpose is to serve the people and not to have the people slave for it.

A respect for government when it honestly endeavors to carry out the will of the people.

A crusade to re-establish elementary morality—honesty, thrift, self-reliance and obedience to God.

A willingness to help the government.

Courage to oppose measures irrespective of the smear and vilification that may face you.

A recognition that God was bountiful to this nation and the decision through a conservation policy to conserve His gifts.

A frank discussion of the conditions necessary to our further aid abroad.

A relentless fight on Communism in all of its forms.

No appeasement that compromises a moral issue.

A recognition that we face a terrible financial problem and that if this nation goes bankrupt the world will face chaos.

We need more care in spending

We must determine to have a sound fiscal policy, restore a convertible currency and demand a government we can afford to pay for.

In a modern government, for a nation as large as the United States, the physical demands upon honest and qualified government personnel are tremendous even in normal times. They are almost an impossible burden in a defense or war effort. Therefore, the following suggestion is made as a patriotic service to our nation and world as well. We have reached the point where every dollar must be weighed carefully irrespective of the purpose for which it is spent. You cannot spend 70 billions of dollars efficiently without having the aid of the best talent supervising such expenditure.

Use qualified men

Let the government turn to qualified agencies to provide emergency aid in its procurement.

Ask the National Association of Purchasing Agents to recruit for the government the best purchasing officers of private business.

Transfer to them the supervisory authority over government buying.

Ask the Controllers' Institute of America to recruit for the government needed controllers drawn from private business to serve the government.

Call upon the National Association of Cost Accountants for volunteers from among the best cost accountants to handle renegotiation and other cost problems.

Ask the American Institute of Accountants to recruit the needed number of men to institute proper accounting and auditing supervision in the various government departments.

Recruit top credit executives and bankers of the United States to be the final authority in passing judgment on all government domestic loans.

Recruit a sufficient number of foreign trade credit executives and foreign trade bankers to evaluate the character of foreign aid.

These men with the aid of representatives of farm and labor groups could save billions of dollars in government costs. The industrial and educational leadership of this nation could be prevailed upon to aid in policy analysis.

Face critical situation

No one will deny that we are faced with a critical situation. Is our country worth while and our way of life worth while? Do we wish to maintain them? If we do, isn't a little sacrifice worth while to pay for the best form of government that the world has ever known?

Credit executives meet issues. The credit profession is not afraid of the problems that confront it. You naturally try to eliminate all measures of uncertainty in your daily task. By doing this you insure successful credit management. The normal uncertainties that occur, ranging all the way from incompetency to acts of God, of their own account make your task not an easy one but you accept it because you like a challenge. You have every right to complain, therefore, when the government is unwilling or lacks the courage to meet the issues you must meet in your daily routine work. You cannot understand why the government should have a priority on every conceivable claim. You know that our constitutional fathers intended the government to have only this priority on tax claims. You also know that they fully expected that the government would use due vigilance in the collection of its taxes.

Because of this government priority with 170 loaning agencies of the government scattered throughout the land you cannot help but feel that any customer of yours that does business with the government must be more carefully checked than those

25 years ago in CREDIT and FINANCIAL MANAGEMENT

As a matter of fact it was then the CREDIT MONTHLY. The name was not changed until 1932, when it was decided that the title *Credit Monthly* was not a complete indication of the readership.

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An insurance company, in a quarter-page ad, published its annual statement as of January 1st, 1925. Its total assets were $14,189,226.93. On the liability side was the following entry:

Reserve for taxes and all other liabilities . . . 348,000.00

Taxes were tough in those days. That's almost 2½%!

A super-duper thriller story entitled "Madame Parini's Cameo," couched ("written" would be too mundane a word) in the flossiest language, described how a credit manager in the wholesale jewelry business had to be a Sherlock Holmes. The poor guy who was "took" was "stunned by the moral obfuscation of the business world." He "stood motionless drinking in the poignant beauty of the minute carving." "A smothered cry involuntarily escaped his speech-bereft lips." In short it's a darn good job he had that two-bit sleuth along!

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New York was in the final stages of preparation for the 31st annual Credit Congress (as we call it today).

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Seattle, Duluth, and Louisville were bidding for the 1927 convention. (Louisville won out.) Duluth supported its bid with a poem and a crack at the Washington weather during the 1925 convention, which was apparently hard to take. Louisville based its main argument on the fact that in 1927 J. Harry Tregoe would celebrate his 25th anniversary as executive manager, a job to which he was elected in Louisville. Seattle came down to earth and offered a wonderful time at reasonable expense.

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DEPARTMENT OF NOSTALGIA: The Seattle bid mentioned a ten day trip to Rainier National Park, Lake Crescent, Lake Kaches, Monte Cristo, Victoria and Vancouver and a cruise through the San Juan islands. Total cost for ten days including transportation and hotel bills—$125.

who do business with private companies. The government not only may have a claim at any time unknown to you but what is more important you are denied free access to the government credit information, despite the fact that it is your money that the government is loaning. You have every right to work to eliminate this unfairness.

You and you alone in the last analysis constitute the government. Those in charge of the government will only recognize this ownership by you if you become articulate. Therefore, you and your organization will fight for full and free information on all government loans to parties of interest and will continue to demand that creditors not be forced to underwrite a lax government that fails to collect its taxes within a reasonable period of time.

You who are gathered here today represent the best of the profession. You form a unit that could be powerful in the restoration of a sound way of government and of life. You may feel you are a very small unit but you are a most important unit.

Our country is too young to go the way of other nations. It is too dear to us to abandon it. It offers the hope of a better world.

Our important objectives

Let us during these days, therefore, in addition to strengthening the superstructure of sound credit which houses the problem of your daily credit life, examine the foundations as well so that a noble government conceived and dedicated to the ideal that all men are created equal shall not only not perish from this earth but above all shall not be made insecure by the termites that have been spawned through two world wars.

Let us throw out expediency, let us learn from experience.

There have been many statements made about credit executives, what they can do and have done to make the environment of business and the climate of business finer, clearer, cleaner. The prophet Isaiah just about summed up the credit man's duties in one sentence: Where he says "man" read "credit man":

"And a man shall be as an hiding place from the wind, and a covert from the tempest; as rivers of water in a dry place, as the shadow of a great rock in a weary land."

For twenty years we have lived through fear and confusion. Our generally acclaimed prosperity has been a myth; the basis of it has been a fear psychology. In a sense much of our production has been due to fear—fear of war. Excess buying both in business and by consumers has been due to fear about the ability to get the necessities and luxuries of life. We publicly acknowledge fear of the enemy; we fear the soundness of the dollar; we fail to speak the truth because we fear we may give offense if we do so. Our actions are based upon expediency rather than upon experience because we fear the political consequence of forthrightness.

Fear is an un-American attribute. A country as young as this must have the innate courage of youth. It is merely dormant. It should be awakened. Let us resolve to awaken it and face up to our task knowing in the end it is the only way we can hope to survive.

We should not be exhibiting a measure of cockiness nor of vanity and boastfulness for these attributes are but a camouflage for fear. Let us have the courage born out of humility and determination, uprighteousness and common honesty—virtues which throughout the ages and into eternity will be the living symbols of courage.

A call to arms is sounded. Like the Minute Men who in this very vicinity answered the call, let us resolve that we too will respond to the banishment of fear and to courageous action and that our response will be not next year, next month, next week nor tomorrow, but today!

This firm designed a special

Credit Policy for an Over-Bought Market

By M. J. SLIKAS
Comptroller, Day's Tailor-D Clothing, Inc., Tacoma

TO PARAPHRASE a nifty, these are times that try the souls of credit men, what with trying to enforce workable credit policies in a market featured by heavy inventory buying that has put many retailers in a grossly over-bought position. One of the chief causes of this over-inventoried condition is the fact most manufacturers passed on to their customers the advance knowledge of price increases and shortages which could have worked a hardship.

The net result has been an unsettled situation for credit men, to put it mildly—the man who always is caught in the middle of any buying spree. My firm, serving 3,000 retailers, is the largest brand trouser manufacturer in the Pacific Northwest. As a manufacturing wholesaler our prime concern is the business health of retailers handling our merchandise. We must see to it that they have trousers to sell, and at a price profitable to all of us. When it became apparent textile costs were going to advance, we immediately advised our retailers to consider that fact. We were already in an advancing market and prices ultimately spiraled to twice their former level.

Long before that point was reached, however, retailers flooded us with orders. Buying became abnormal, surpassing immediate inventory needs, and the price structure wouldn't stay put. It became immediately obvious to me that our net 30-day credit term was fast becoming untenable for most of our customers. When a retailer doubles his stock within a matter of a few months his credit and financial picture assumes an entirely new look, an appearence that may be quite shocking!

Needed a new credit plan

Our buying in textiles was heavy and we were operating at capacity to fill the orders of our customers. To sell was our advantage and to buy was theirs. But the books had to balance someplace — we couldn't carry the retailer forever and, save for a few of our larger nation-wide accounts, he was not financially equipped to meet the credit terms on merchandise he would not be selling for many months.

Staggering deliveries of merchandise, or delaying them until the retailer knew he could meet the 30-day term was not the answer. Such a procedure merely meant that our ownership of merchandise in our own factory declined as its volume grew. This stock, on the books as owned by someone else, represented a huge investment, yet the actual ownership as represented by the retailers could not take it over if we were to enforce our credit terms. While we were continually booking new merchandise at increasing prices, we were committed to deliver that stock we were holding on orders at the previously lower prices at which it had been ostensibly purchased by the retailer. This policy was set 50 years ago when Day's guaranteed delivery at booked prices, or current market, whichever was lower.

Obviously enough, our credit policy was going to have to be revised immediately if the retailer was to claim his merchandise and our investment in his stock liquidated. The management at Day's worked out a payment plan for the retailer that permitted us to work down our inventories, got him his stock, and saw a financial arrangement agreed upon that proved to be a happily acceptable one for all parties. Briefly, it was this:

6% Interest on extended invoices

We would charge six per cent interest per annum on all invoices extended beyond our 30-day term limit. There were exceptions in which we granted a margin of an additional 30 days before the interest rate took effect.

Presto—we were in the banking business! The change was made virtually overnight early this year and my verdict from the viewpoint of several months' operation is this: it works.

Visiting our larger key accounts and writing to the others, I saw the plan go into effect without a hitch. With some few customers, our less desirable accounts whose credit position would not bear any extra strain, we continued on the 30-day term basis, declining any new interest arrangement with them. These retailers were placed on a limited-order basis, receiving no more merchandise than we believed they could pay for under normal credit terms. This, frankly, was not an ideal situation for it encouraged them to turn to other suppliers for their overstock, a fact which meant a retailer's current accounts were growing to a point where he could not hope to meet them on a 30-day basis.

When a condition such as this

NEW ACCOUNT INFORMATION

(Send in Attached to First Order)

Salesman________________

Date________________

FIRMS NAME________________

ADDRESS________________ (Street & No.) (City & State)

NAME OF PROP.________________

NAME OF BUYER________________

OTHER CONTACTS________________

IS THE STORE
- Modern and Up-to-date ☐
- Clean, Well Stocked ☐
- Only Fair ☐

LOCATION
- Excellent ☐
- Intermediate ☐
- Fair ☐

IS THE STORE IN A
- Wooden Bldg. ☐
- Brick Bldg. ☐

YOUR OPINION OF BUSINESS ABILITY
- Excellent ☐
- Intermediate ☐
- Fair ☐

LOCAL CONDITIONS
- Excellent ☐
- Intermediate ☐
- Fair ☐

MEN'S SPECIALTY SHOP ☐

DEPT. STORE ☐

OTHER INDICATE (..............................)

FIRST ORDER INCLUDED
- Iron Duke ☐
- Trojan ☐
- Ranger Pant ☐
- College Cord ☐
- Slacks ☐
- Jackets ☐

DOES HE SELL
- Work Clothes ☐
- Slacks ☐

D & B RATING________________

BUYS PANTS FROM________________

REFERENCES________________

ADV. INFOR.—(Over)

developed with a doubtful retailer, our alternative was to cancel deliveries of merchandise that had been ordered at earlier and lower prices. This action, or the threat of it, accelerated payment of overdue accounts. With slow-pay accounts I have found it a good policy to urge that at least partial payment of them be made under an arrangement that provided an interest charge of six per cent go into effect when they became delinquent in meeting the dates for partial, or full payment.

As for the six per cent interest plan as applied to our trustworthy accounts which had bought heavily against shortages and price increases, usually at encouragement from us, it amounted to just this, viewing it realistically: We were serving as that retailer's banker and thereby permitting him to buy wisely and with resultant savings to himself.

Retailers could go to their banks

True, the retailer could borrow from his own bank at an interest rate lower than six per cent. If he could, then that fact was an incentive that he do so and get us paid up as soon as possible. Far be it from us to finance a business man who can turn elsewhere for help, but it did appear to be our function to assist those who could not. And common enough are the business men who prefer not to borrow when it means obligating more than the merchandise under question. After all, we not only had a vested interest in the merchandise, but it stood as itself as security for the money due on it. We found, too, that there are numerous retailers who although they are acceptable credit risks may not be able to borrow at will when they are in an abnormal over-inventoried position.

By the same token, we, too, could have borrowed money at four or five per cent, if necessary, and the six per cent rate we were charging was high enough to cover all our added overhead in the accounting and credit department. In fact, serving as banker to retailers did not cost us anything, for the difference between our rate and the bank's absorbed all extra costs involved in the new credit plan.

Not an ideal credit plan

Don't think for a minute that I view this interest charge as a desirable feature of a credit operation. It is not. It costs our customers money and adds unwanted book work to our own business. This can be said for it, however: It permits a retailer to buy heavily for future savings which most of them would not be able to do under an enforced 30-day term. Beyond that, it does not place the burden of carrying the retailer onto the manufacturing wholesaler who without it might well have to turn to his bank for financing, for his ownership in merchandise would decline as his investment in it mounted.

It has been my experience that the interest charge is a stimulant that works to the paying up of invoices as soon as possible. The retailer is apt to keep his full attention on his business and aim toward liquidating those interest-bearing accounts when he sees the cost of keeping them open as an item that reduces his net profit. When our customers have returned themselves to a normal cash position in relation to inventory and turnover, we will return to our 30-day term policy as the more ideal basis on which to conduct credit. However, business generally may be faced with unset-

(*Continued on page 34*)

AS A CREDITOR . . .

by CARL B. EVERBERG

Assistant Professor of Law, Boston University

You can:

1. Further control the risk of the credit extended to the debtor, after all other precautions in the way of investigation have been taken, by having a full bill of lading show the goods deliverable to yourself or your agent, or to the order of yourself or to the order of your agent. Buyer cannot obtain the goods then until some further act on your part —for example, giving an order on the carrier to deliver the goods to the buyer (where the B/L is straight), or indorsing and delivering the B/L (where it is negotiable).

2. Further control the risk of credit by having the B/L show the goods deliverable to the order of the buyer, at the same time retaining possession of the B/L yourself. By withholding the order B/L (the order B/L being negotiable) the buyer cannot obtain the goods, even though consigned to his order, because a carrier cannot safely deliver goods on a negotiable B/L without requiring surrender of the bill. You thus force the debtor to pay or make arrangements on your terms before he gets the goods.

3. Further control the risk of credit, using either type of B/L as shown in the above paragraphs, and sending it, with a draft attached, to a bank in the debtor's city, giving instructions to the bank, to put the debtor in position to obtain the goods, either by assigning the straight bill to the debtor and ordering the carrier to deliver to him, or by delivering a negotiable bill to the debtor, properly indorsed (if it is not already consigned to his order), when the debtor has paid, or obtained financing to pay, the draft.

Note: The question as to where title is in the above transactions is not always clear. This is not too important, however; whether title is in the seller or buyer, the security lies in the fact that the buyer does *not have the right of possession* until he meets your requirements.

C. O. D. Transactions

4. Further control the risk of credit by shipping on a C. O. D. basis. The view in many states is that the title remains in the seller, in a C. O. D. transaction, until payment has been made by the buyer. Other states hold that the title has passed but that the buyer is not entitled to possession until payment is made. Many credit men resort to this device with customers whose credit is doubtful. And it matters little whether the title is considered as having passed or not; the *C. O. D. device prevents possession* from coming into the debtor until payment.

5. Further control the risk of credit by passing title and yet retaining possession of the goods until payment of the purchase price. However, where you have given the debtor credit terms, you have waived this right (known as the unpaid vendor's lien) for the period of the credit. Nevertheless, though you have given the buyer credit terms, if you have not parted with possession, you may retain possession of the goods if the buyer has become "insolvent." Being "insolvent" for this purpose is much different than being "insolvent" under the Bankruptcy Act, however. For the purpose of exercising the unpaid vendor's lien, a person may be insolvent when he "either has ceased to pay his debts in the ordinary course of business, or cannot pay his debts as they become due."

6. Further control the risk by stopping goods in transit (after the goods have left your possession, but while they are in the possession of the carrier, and in transit). The only ground upon which this right of stoppage can be exercised is the kind of "insolvency" as defined in the above paragraph. All you need do, if you have the proper circumstances, is to notify the carrier not to deliver the goods to the buyer, and to return them to you. If the transit is over connecting lines (such as connecting railroads) you can notify the initial carrier, and the goods must not be delivered to the buyer (assuming there is time to act).

Note: The kind of "insolvency" referred to in the paragraphs 5. and 6. is much easier to show than the kind of insolvency defined under the Bankruptcy Law (which is, substantially, an excess of liabilities over assets). The nonpayment of a single debt may, under certain circumstances, be significant enough to indicate the fact of insolvency for these purposes. If a buyer admits to a seller that he is unable to pay, this is undoubtedly "insolvency" so far as it concerns the right to stop goods in transit. A seller's mere suspicions are not enough; yet, in case of a mercantile agency's report that the buyer has been reported delinquent as respects his creditors generally, this would in all likelihood constitute "insolvency" here.

7. Exercise the right to stop goods even though a creditor of the buyer has attached the goods in transit and even before the right to stop the goods was exercised.

You Cannot

1. Stop goods in transit where a *negotiable B/L* has been transferred to the buyer, even where insolvency of the buyer exists. The right to stop goods is lost upon delivery to the buyer, or his agent, and goods are considered delivered upon the transfer of an order (negotiable) B/L to the buyer. The negotiable bill is symbolic of the goods themselves. The same is not true of a nonnegotiable bill, however.

2. Stop goods if the buyer transfers the B/L to an innocent purchaser for value. This is because, where the purchaser and the seller are equally innocent, the law considers that the loss should fall on the seller whose act put it in the power of his debtor to occasion a loss.

To his customers the credit executive should act as a

One-Man Business Clinic

by EUGENE W. WALRATH

Credit Manager, John Deere Plow Co. of Syracuse, Inc., Syracuse, N. Y.

IF YOU will pause and mentally review your own experiences with your customers, you will agree with me that the majority of them do not understand the problems which result in financial difficulties. Of more serious import, in my opinion, is the fact that many of them are completely unaware of the very existence of problems which require attention daily. Trouble, therefore, approaches insidiously without their knowledge.

I use every opportunity in my own industry to act as a one-man committee, in a manner of speaking, to bring about not only a broader understanding of these problems but also a realization that they exist for every retail merchandiser regardless of whether hats are sold or tractors. I persistently pursue this policy in group meetings, with individuals, with the people in our own company, and, as a matter of fact, with anyone who will listen. I look upon it as a duty above and beyond the more or less routine duties of a credit manager. I think that is a service which should logically fall upon all of us. Certainly we should be qualified by our intimate and broad experience.

There is perhaps the added reason that problems which are better understood are more easily handled, resulting in fewer credit situations, and I personally would prefer to spend days keeping an account out of trouble than to spend 20 minutes endeavoring to relieve a condition which had become a problem because, at that stage, the problem may be incapable of solution.

Methods and conditions change

Many people today are concerned and have already given careful consideration to that which lies ahead. Others are puzzled; some are confused and do not know how to cope with conditions. Every day, dealers stop in my office with problems both large and small. "Should I do this?" or "Would this be better?" "What is your opinion?" "What does the company think?" So I know that people are concerned and do desire to take all ordinary and extraordinary precautions for the future.

In reviewing and analyzing some of these situations, it is often disturbing to discover that the ordinary and even first precautionary measures have not been used to reduce the normal hazards.

Conditions of business change frequently and very often change quickly—but it should be remembered that the *sound, basic, underlying principles of business never change.*

Any proprietor or manager of a retail merchandising establishment must first concern himself with having a complete and thorough knowledge of the entire enterprise—so that he will know immediately and completely the cause and effect of any action taken in one phase of the business upon any and all other phases of the operation.

Over-emphasis on sales

It has been my experience, and I am sure yours also, that many people responsible for the success or failure of the business have a very marked tendency to devote practically all of their attention to the sales of the business and little or none to the actual control of the business. In some respects this is understandable because naturally any success is predicated upon an aggressive sales effort which is properly directed. Again, most businesses are started by men who are expert salesmen and who have been successful in building a satisfactory sales volume.

However, it should be pointed out that *a large volume of sales is not in itself a guarantee of profit.* And so we immediately have the factor of profit injected. Profit is the sole justification of any business venture.

In these difficult times for our country there is an added duty and stronger motive to inspire everyone to greater efforts because all of us will be called upon in some capacity to aid in the war preparedness. The distribution of food, clothing, drugs, appliances, and all of the necessities of life must be maintained and under very difficult conditions with more and more people going into war production and the armed forces. But it must be remembered that no business can continue to function without earning a consistent and healthy profit.

Now frequently when the financial and internal control phase of business is discussed, there is a tendency on the part of some to immediately set up a mental block. People sometimes feel that it is complicated and difficult to understand. We all know that no one requires a Doctorate degree in finance to completely understand a merchandising operation.

Suppose we examine exactly what happens to our customers' dollars when they engage in retailing any form of merchandise.

Working capital

Probably the first thing to be considered is the sales potential for the particular marketing area. Very careful estimates of this potential

should be made because upon this sales potential, and upon the sales for which a merchandising operation is set up, depends the amount of capital which will be needed and also the working capital requirements. I sometimes have the impression from sales people particularly, that I lay too much stress upon working capital requirements. In my opinion, that is almost impossible because it is the crux of the entire venture. You are using and working with working capital every time you make a sale, collect an outstanding account, or pay a bill.

Regardless of the industry it is only possible to go through the trading cycle a given number of times during a fiscal period. Inexperienced people are apt to assume that it is a simple matter to take cash, buy merchandise, sell it for cash or credit, collect accounts receivable, pay bills, and end up with a profit and a satisfactory cash position. This is the actual trading cycle of every retailer and is not done just once for each fiscal period but must be performed a number of times. It is not a job to be undertaken lightly—the problems are many—and while the problems are being met, all of the assets involved are naturally subject to risk.

Inventory

A discussion of specific problems is always prudent. The most difficult of all is probably that of inventory. Actually, inventory — its proper creation, control, and turnover—is often the least understood. Here the manager must be the sharpest. A sufficient amount of inventory must be maintained because it is a basic principle of merchandising that *the best of salesmen cannot sell from empty shelves.* A careful analysis of the existing and future market must be made so that the proper amount of inventory is purchased. (The manager now becomes a purchasing agent.) No inventory can be properly maintained without specific inventory controls. Unfortunate managers will sometimes insist upon attempting it. I say "unfortunate" because trouble for them is inevitable. Without these controls inventories become understocked on fast-moving merchandise, overstocked with slow-moving merchandise—obsolescence creeps in, sales are lost, and expenses increased. It must be self-evident that it is an utter impossibility to maintain a current inventory without high-quality controls. (Now the manager has become a stock-keeper.)

A well executed, aggressive sales effort to keep this stock moving effectively is a daily problem because it is through this effort that inventory turnover is accomplished. (Now the manager is a salesman.) Inventory turnover is very closely related to working capital turnover and this degree of turnover exercises a direct influence on the amount of capital required to operate a business.

Accounts and notes receivable

A certain amount of this inventory must be sold on credit in order to maintain a fair share of sales in the trading area. A thorough knowledge of customers, either personal or obtained from credit reports and other credit investigation, will limit and prevent future credit difficulties, charge-offs, and losses. (The manager is now a credit man.) Many owners and managers are often puzzled by their inability to take advantage of all discounts even while making a substantial profit, failing to realize that too much money is tied up in accounts and notes receivable. Compare accounts receivable with the net profit for the year. It is sometimes startling to note that more than a complete year's profit is tied up in slow-moving receivables.

Very few retail businesses can afford the luxury of being lax on credits and collections because such laxity can too easily mean the difference between a profit or loss at the year's end.

Cash position

When anyone is striving for credit with his suppliers or bankers, one of the first items scrutinized by them will be the cash position. Here again there is a very proper relationship to be maintained between the cash position and the amount of money invested in inventory and outstanding in accounts receivable. I am sure you know that almost all bankers will desire that cash and accounts receivable *alone* be sufficient to pay off all *current* obligations.

Financing

Mention should be made at this point concerning the very delicate problem of financing on a short term basis. It is, of course, often good business to supplement working capital with borrowed money. However, there is a very definite limit to which this can be done safely. Borrowing in amounts proportionately excessive to the amount of working capital already available will inevitably result in difficulty meeting these short term loans as they become due. There is a carefully defined point beyond which it is inadvisable to go—be sure that this point is known to be on firm ground.

It might also be wise to mention the problem of financing the sales made by retailers to their customers. Many dealers give little thought to the amount of paper which they endorse on a full recourse basis. When a period of contracting economy is reached, this causes more "headaches" than possibly any other situation in the field of finance. There is an axiomatic saying used by many credit people which should be worthy of consideration. Let me quote it to you: "It is the contingent liabilities built up in good times which lead to disaster in hard times." Every time a note is endorsed with recourse, this contingent liability has been increased. This problem should be studied carefully and serious thought given to the indiscriminate endorsement of customers' paper.

Fixed assets

We should now turn to the money used for fixed assets. The correct investment in fixed assets presents no mean problem in itself. The era is long past when this investment for most retail merchandisers was on the relatively small side. Competition makes it necessary to operate from favorable locations, with modern establishments offering all of the up-to-date conveniences and facilities. Those industries required to give elaborate and extensive service to their merchandise have an additional investment to make in parts, shop equipment, trucks, etc. Space must always be provided for office personnel, display, and storage. Frankly, this all ends up in a sizable investment by any standards.

However, there must be a proper ratio between the amount invested in fixed assets and the entire invested capital. Quite often the investment in fixed assets is excessive and this over-expansion is met by funds taken from working capital, thereby depleting it. As previously pointed out, any depletion or unbalancing of the working capital position affects debt-paying ability, the sales effort, and reduces profit. Let me repeat, the investment in fixed assets while an absolute necessity should be analyzed very carefully to avoid any unbalancing of the over-all capital invested.

Operating expenses

The salary and wage expense is always the largest and of first concern. Unless carefully guarded against, this item can easily be excessive. This is understood by everyone. However, that is not always the end of the problem. Sometimes it is necessary to delve deeper to see if salaries and wages are being paid out in amounts commensurate with the expected returns ot the business. I have analyzed situations and discovered that sales salaries were not weighed proportionately to other salaries paid. Obviously, the maximum in sales will not be obtained if the sales force is not sufficiently staffed to bring out the maximum effort. (Now the manager is becoming a personnel director.) There is a distinct percentage of the returns from sales which can and probably should be spent for salaries and wages. Of this amount, there is a very definite sum which should be paid for *outside* sales effort where that type of selling is featured. There is also a very definite maximum and minimum percentage of the realized margin that should be used to pay outside salesmen. Many retail trade associations have prepared excellent studies of this factor, giving complete details on how to figure it and indicating those items of the salesmen's expenses which are included or excluded.

Getting back to the manager

Let us turn now from the problems of the business and think about the person charged with the re-

(*Continued on page 34*)

Here's a financial statement—

What does it mean?

by HELEN M. SOMMERS

Credit Manager, Trojan Hosiery Mills, Indianapolis

(Editor's note: Space has been at an appalling premium for the past few months due to the amount of convention news which has come in. As a result, Miss Sommers' series of articles on scientific credit analysis has had to be deferred. As a result of that the continuity has been broken, a fact to be deplored. However, in this instalment we pick up the thread dropped in the February issue.)

Questions on inventory

Merchandise Inventory is one of the most manipulatable items on a financial statement. It can be undervalued to conceal profits for tax purposes. It can be overvalued to conceal losses for credit purposes. Behind the desk you can know little about the extensional items that go into its total without close reference to every bit of supplementary data you have that bears upon it: what you saw with your own eyes when you were there; what your salesmen reported to you about the stock, with due allowance for changes that have occurred since his report; the kinds of goods carried; the price range; average turnover; market trends, etc.

Was a physical inventory taken? At statement date? By owner? Employees? Supervised by an independent accountant? Spot checked by him as to count? Extensions?

Was statement valued at cost? Market? Whichever was lower? Retail method?

"Market" price

Since market price is the actual price at which an item is bought or sold at a given date, and since one cannot go out in the open market and shop for replacement of every item in his inventory, "market" price must have been somebody's estimate, or guess. Who determined "cost or market, whichever?" Did an accountant check these valuations?

Was care taken to include in the current liabilities all merchandise bills for goods received and counted in inventory. Did the accountant check this?

Did the inventory include any goods that had been consigned to this business by a vendor, to be paid for when sold?

(This is the vendor's goods and should be excluded from the merchandise inventory. Tangible net worth should be reduced accordingly. The auditor should list aggregate billings for such merchandise on the liability side and deduct the consignment inventory from it, so as to show liability for shortage if any.)

Did the inventory include any goods consigned to others for contract processing? (This should be valued at cost and not at nominal selling price as such items are frequently billed.)

Did accountant check to include merchandise not yet received, but shipped by the vendor before close of fiscal year? And did he include the liability therefor?

Where were these inventories located? Store? Plant? Warehouse? Commission processors? Consigned to others? Was adequate fire and theft insurance carried at these various locations?

Pledged inventory

Has inventory, or any part of it, been pledged to secure a factoring arrangement? Loan from bank? Other lending agency? Were any loans shown on the financial statement, security for which was not disclosed (Better investigate; maybe the inventory was pledged for it.)

(For the purpose of determining the value of assets available at statement date to pay unsecured creditors, pledged assets of any kind, including pledged inventory, should, of course, be excluded. For this purpose they should be applied against the debts for which they were pledged and, if insufficient to cover, the remaining liability should be added to the other unsecured debts.

On the other hand, the entire inventory, pledged and otherwise, should be considered for purposes of evaluating its size in relation to sales needs of the business and the availability of working capital to support it. These points will be taken up in a later chapter on ratio analysis.)

If this is a manufacturing business, how much of the inventory was raw material? Work in process? Finished goods? Was this firm at statement date manufacturing for stock, or against confirmed orders (information useful in appraising size of inventory)?

Formula to determine merchandise supply

In terms of an average day's sales at cost, how many days' supply of merchandise was on hand at statement date?

(In order to work out the answer to this question you will need an actual operating statement for the period just closed, or, in lieu of that some general averages as follows: % gross profit usually earned in this kind of business; if a manufacturer, the % cost of raw material, and the % cost of labor to selling price in this kind of business; average merchandise turnover at cost. See August and November chapters in this series for discussion on building up

this kind of background information. See also Roy A. Foulke's *Practical Financial Statement Analysis,* McGraw-Hill, Ch.V, pp. 151 and 154.)

Formula for answering this question for retail and wholesale businesses:

a.

$$\frac{\text{Year's net sales minus gross profit*}}{365} =$$

1 day''s average sales at cost

b.

$$\frac{\text{Inventory at cost}}{\text{1 day's average sales at cost}} =$$

number of average days' supply of mdse. in inventory

Formula for manufacturing business:

1.

$$\frac{\text{Year's sales x \% cost of raw matl. to sales}}{365} =$$

cost of raw matl. in one day's average sales

2.

$$\frac{\text{Total raw matl. in invty.}}{\text{answer to step (1)}} =$$

approximate number of days' supply raw matl. in invty. in terms of 1 day's av. sales

3.

$$\frac{\text{Total sales x \% cost of labor and mfg. exp.}}{365} =$$

cost of labor and mfg. exp. in one day's av. sales

4.

$$\frac{\text{Invty. goods in process}}{\text{1/2 of answer (3) plus all of (1)}} =$$

approximate number of days' supply unfinished goods in invty.

5.

$$\frac{\text{Invty. finished goods}}{\text{answer (1) plus (3)}} =$$

approximate number of days' supply finished goods on hand

6.

Answers (2), (4), and (5), when added together give the approximate number of days' supply of goods in inventory in terms of one day's average sales at cost.

* Apply industry gross-profit percentages to net sales in order to estimate gross profit if actual figures are not available.

Now compare answer (6) or answer (b) to average merchandise turnover in days for this kind of business. Does the answer indicate that more than a normal number of days' supply of merchandise and materials was in stock at statement date?

Inventory in seasonal businesses

Is your customer's business a seasonal one? When do the peak seasons occur? Was the inventory taken at the height of the buying or manufacturing season, and before the peak selling season? Was it taken after the close of the peak selling season? If so, does the number of days' supply of goods and material still in stock indicate a post-season carry-over?

Was the merchandise that was in inventory fashion goods? Was it subject to early obsolescence? Deterioration? Rapidly perishable?

(In the light of these answers scale inventory down if above normal number of days' supply and deduct the difference from tangible net worth.)

The lag between the effective date of a statement and the date it reaches the analyst can become an advantage for evaluating the inventory shown on the statement. We can, for example, check up on the management's foresight by examining the size of the inventory in the light of what has actually happened in the market since statement date:

Were markdowns taken at statement date in anticipation of a falling market thereafter? What trend has the market taken in these goods since statement date? Have price trends necessitated further markdowns in this customer's inventory? Has consumer demand been good? Has merchandise been hard to get in these lines since statement date? Do these subsequent trends justify the size of the inventory, whether large or small in terms of number of days supply on hand?

Securities as assets

Securities and Investments cover a multitude of differences in composition and value. For this reason a complete breakdown should be requested where any sizable amount is involved. Lines of distinction are sometimes difficult when it comes to classifying them as current or slow assets. Readily marketable securities and Government bonds bought with excess working funds and held for liquidation if again needed may be properly classed as current assets. All securities held for long term investment should of course be classed as miscellaneous slow assets. Later, when successive statements are compared and when ratios of successive statements are studied, care should be exercised to insure consistency in these classifications as between the two or more statements so compared.

Questions for a breakdown of Securities and Investments:

Were they Government Bonds? If Series E, were they valued at cost? Accrued Value? Redemption value at maturity? When will they mature? (Scale down to approximate accrued value.)

Were they industrial, commercial, etc., stocks listed on a stock exchange? Common? Preferred? Yield? Names of the stocks? Recent market trends? Valued at cost? Market? Whichever was lower?

Were they State or municipal bonds? Age? Maturity? Yield?

Unlisted stocks? In what companies? Were any investments in subsidiaries or affiliates included? One hundred per cent owned? Minority interest? Was subsidiary in a healthy condition at its latest statement date?

(Examine the last two items carefully, since worthless stocks in unlisted companies, and in subsidiaries, are often carried on statements long after their value has become nil. Scale down liberally wherever doubtful and deduct difference from tangible net worth.)

Insurance questions

Cash Surrender Value of life insurance as found on financial statements is an ubiquitous item. On one statement it is found among the current assets. On another it appears in the slow assets. Some accountants treat it as a working, and therefore current, asset if it has been used as security for a loan from the insurance company or a bank. Others treat it as current because it can be converted into cash. Since it is beyond the reach of general creditors if pledged to secure a loan and since, in any case, it is not ordinarily converted into cash except upon the death of the insured or the liquidation of the business, it seems best to class it as a miscellaneous slow asset. Questions:

On whose lives is the insurance carried?

Is it carried for the benefit of the business? (Not a legitimate business asset otherwise.)

Is "cash surrender value" as stated the actual cash surrender value at the statement date, or, as is sometimes done, does it represent the accrued premiums paid on the policy to date? (If so, scale down and deduct from tangible net worth.)

Has it been pledged to secure a loan? If so, is the loan shown on the liability side of the statement? Or has it been deducted from the cash surrender value and the balance shown as an asset? (In that case adjust so as to show the asset and the liability on opposite sides of the statement.)

Deferred charges to watch

Prepaid Expenses, sometimes called deferred charges, are of course slow assets and are only legitimate assets at all when they represent unused portions of goods or services, the expense of which was incurred before statement date. Their chief interest to the analyst is that they represent future expenses that have already been paid, and for which cash will not be required in the ensuing accounting period.

These should be relatively small amounts in relation to other assets. If large, ask for an exact breakdown of the expense, when it was placed on the books, and how far into the future the benefits will accrue. Normal items: rent, insurance, discount, interest, etc., paid in advance.

If the expense of improvements to leased property is carried as an asset on the statement, what is the life of the lease? Is this amount being systematically amortized so as to be completely absorbed at the expiration of the lease? Or within 10 years, whichever is sooner?

(Exclude all of such items if the statement is being evaluated in the light of realizable assets in liquidation as of statement date.)

Fixed, yes, but assets?

Fixed Assets are significant to a

credit analyst chiefly from two points of view: (1) the proportion of total capital which they absorb as compared to the remaining working capital (This will be examined when we consider liquidity ratios in the next chapter.); (2) the extent to which the investment in fixed assets burdens the business with fixed charges—interest rates on mortgage indebtedness, depreciation and upkeep, taxes, etc.

When buildings and the heavier equipment and fixture items have been carried on the books at what they cost, let us say ten years ago, and depreciation reserves have been accumulated on such a cost basis, these reserves will be pitifully small if our customer wants to erect a new building, or remodel the old one at 1951 prices. Hence the need for carefully studying the basis of evaluation of fixed assets, their age, the reserves set up, special funds earmarked to support them, and the immediacy of replacement requirements. Questions:

Was the building valued at cost? Reappraised? When? By professional appraisers? By management? At replacement value? Built when? In good repair?

Over what period is it being depreciated? Amount of accumulated depreciation reserve? How soon are replacement or major repairs likely to be required? If old, and replacement is desirable, were reserves, as of statement date, supported by cash funds set aside for this purpose?

(The mere existence of a reserve account does not guarantee that internal or external resources are available to carry out its purpose.)

Were land and buildings mortgaged? Original amount? When? Balance due? What schedule of payments?

Compare amount of insurance carried with cost and replacement value of buildings.

Were machinery, fixtures, and equipment valued at cost? As of whate date? Being depreciated over what period? Amount of depreciation reserve? Nature of equipment: Machines? Office equipment and furniture? Tools? Removable show cases? Fixtures permanently attached to a leased building? Modern? New? Old?

(*Continued on page 36*)

He's your stock in trade. It's just elementary horse-sense to

Keep the Salesman Your Friend

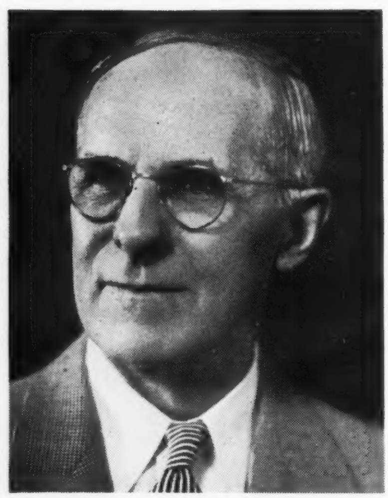
by J. E. WALSH

General Credit Manager, Oscar Mayer & Co., Chicago

TO A salesman his stock in trade, and the item he studies most, is the product he sells. To a credit man his stock in trade, and the product, I will say, that he weighs and studies carefully, is the salesman. When a new salesman sits down at my desk, I first try to put him at ease. I say to myself, "I am going to make this man my friend".

I have in my department 12 credit men—that is at our 4 plants. Chicago is the parent and headquarter plant, and we have plants at Madison, Davenport and at Philadelphia. In my talks with credit men the main thing I stress is: "Keep the salesman your friend, it makes your job easier". Nothing can be accomplished without harmony, and the spirit of working together is more important than anything else. It means money to the people for whom you sell. This spirit of harmony, especially on the part of the salesman, should start with the writing of the order. A salesman should feel that when he writes or takes an order he is placing his credit OK on that account.

We have salesmen whose orders we never OK. Years back when I was passing orders I had a number of salesmen that I permitted to OK their own orders. I did not want to see the order when it came into the house. Those fine men never betrayed that confidence. True, I gave them credit facts about their customers, but I let them write their own ticket. Two of those men now are at the head of our sales department, and another is at the head of our Product Control Department. This last man was one of the



best salesmen I ever encountered, and he has been with the company now for 48 years! He had about 150 active accounts in the Chicago suburban area, and as I recall, he had only one credit loss in 25 years! He was the best friend any credit man could have!

See the customer's side

To keep a firm's credit losses down a credit man should also be able to see the customer's side of the picture. I should like to relate an experience I had a number of years ago.

A disastrous flood at that time had hit many of our accounts. The salesman in one of those towns called me in a panic about one of his customers who was owing a considerable sum of money. I flew down that day to see how bad the situation was. As I flew into that city as far as the eye could see was nothing but water. The salesman met me at the airport and as we drove down the river to this place of business we talked over the situation. I had an N.S.F. check for some $3,000 in my pocket and I was plenty worried.

As we drew up to this plant water was still pouring over the street only a block away. The water had been up to the second floor in this plant. Unless you have been through a flood you haven't the least conception of the damage flood waters can do. Flood waters contaminate everything. Every telephone wire and every electric wire had to be jerked out of the plant. All the products, canned and otherwise, in the cellars and on the first floor had been condemned by the local health department. All over the city, I noted, men were busy shoveling clothes, shoes, and food stuffs out of windows into trucks to be carried away to be destroyed. The dread typhoid rides with a flood!

This man met us at the door. He had a week's beard on his face. He was attired in rubber boots to his hips. His hands were torn where he had worked trying to save his machinery and his plant. (His son told us afterwards of how all one terrible night he had stood at one corner of his plant and with a long pole warded off great oil drums that came tearing along in the swift current threatening to demolish his building.) His employees were busy cleaning, scrubbing and shoveling mud out of the plant, trying to get the machinery in working condition. He had run a telephone line in from the hills back of his plant and this he was sharing with the Red Cross. He had invited and installed the Red Cross in one corner of his plant, and his trucks were out delivering coal, and food and clothes.

Here was a MAN who had not given up! He was trying to save his business! He had not rushed into the bankruptcy courts as many up the river were doing. I stammered about the N.S.F. check. He said, "I will try and pay that as soon as they have the mud shoveled out of the bank." I asked to look at his books and he showed me everything. I asked him when he thought he would be able to open. He said, "I will open Monday if I can get the product." It was then Friday noon. I knew he was C.O.D. already with several concerns. I asked him how much he would need and he said a straight mixed car. I said, "Give the order to Bill here, and we will have a car here Monday morning." His voice shook and tears came in his eyes as he tried to thank us. I said, "Don't thank me, I am backed by the best firm in the world, and it is them you should thank."

Judgment paid off!

That following year he used 75 cars of our products! We took a chance on the character of the man we were selling, and also on the word of the salesman, and we won out. Before the summer was over our account was right up to date, and we had made a friend for life. One of the easiest things a credit man can say is "No". The time of the old-fashioned credit man who sat in a corner and who seemed to take a diabolical delight in cancelling an order is gone. Credit men today are part of management, and are as interested in profits and in keeping customers as the sales manager. This is reflected in the number of credit men today who are treasurers or assistant treasurers of their firms.

I like a salesman who calls for help when he gets into a jam. About a year ago we had a customer down in the south who was consistently behind in his payments and getting worse. I flew down there. It was January and where is there a finer place to go in January? At times we had to cut this fellow's orders in half. The salesman was concerned over the tonnage he was losing. I found the customer very easy to talk to; in fact he was wide open for advice. We persuaded him that now that his business had grown he would have to put in additional capital. This was one of those businesses that had grown up during the war. We showed him the necessity of putting pressure on his own accounts and getting them to pay weekly. We put part of his account on an installment payment plan and it was not long until he worked his way back up. He is now one of the best accounts we have in the south. An up-to-date credit man gets out with his salesmen—gets acquainted with the salesman and with his customers. Customers, I have found, like to see the credit man. We have customers whom we have helped install their accounting systems, and when asked have advised them on tax matters, etc. Salesmen like that kind of help. It helps them sell more products, and I have found they will go to the end of the trail for a credit man who will work with them. Customers like it too.

Another thing is writing letters to salesmen. A good credit man never, knowingly, writes a letter that will offend a salesman. A letter, one letter, can spoil the whole day for a salesman. Just picture him. He is out there all alone on his territory, miles and miles away. Eagerly he opens his mail. He starts to read this "so-and-so" letter. He bangs it into his brief case, and the sales manager wonders what happened to some of the boys orders that day!

To a customer the salesman is "The Company". He judges the company by the actions of that salesman. The best advertising, the best products in the world, cannot overcome a disgruntled or dissatisfied salesman. If your own credit department is tough, try and find out why it is tough. Perhaps some of the trouble or fault might be your own.

CONVENTION

news and pictures will appear in the June issue.

See the credit man first

The next time you go into the office make it a point to see the credit man *first*. Make the credit man feel you are glad to see him. A credit man likes salesmen who are interested in their accounts, and in the standing of their route. By your very interest you will find the credit man willing and anxious to help you in any way he can.

In our company we periodically hold collection contests. We award cash prizes to the salesman doing the best collection job, and I never hesitate to compliment a salesman with a letter who is doing a good job on his route. These men show such letters to their customers and the customer gets a different slant on the credit department.

Our statements come out weekly, and if the route shows any past dues we list them on a "red card". This red card is a danger signal to the salesman. I receive a copy of these red cards and if the salesman has only one or two past dues, and the dollar sales are good, I often pencil him a note across the card. That fellow will not have one on the card the following week! It is just a little homely touch but it makes friends and pays dividends. A credit department can also be a goodwill department in other ways. For instance, we encourage our salesmen to let us know whenever there is a death in a customer's family, or a birth, or a marriage. A little note from the credit department does wonders in goodwill.

. . . and cooperate with him

In closing I wish to leave this thought with you. If you expect your credit man to cooperate with you then you must meet him halfway. Keep him informed of conditions on your territory. If an account is slipping do not hesitate to tip off the credit man. If he is a good credit man with the profit of his company at heart he will work with you. Be prompt in answering letters—in turning in collections, in claim matters. There is always room at the top for men who do their work well.

Supreme Court Rules on taxation By States of Carriers Engaged in Interstate Commerce Exclusively

by W. RANDOLPH MONTGOMERY
Partner, Gerdes & Montgomery, Counsel to NACM

IN A recent decision, the United States Supreme Court held invalid as against a corporation engaged exclusively in interstate business a tax imposed by the State of Connecticut (Chap. 221, Laws of 1935) upon mercantile, manufacturing, banking and miscellaneous corporations for the privilege of doing business in Connecticut and measured by the taxpayer's entire annual net income derived from sources within the state.

The decision was made in the case of *Spector Motor Service, Inc. v. Walsh,* and terminates litigation which has been pending in the Federal and State courts for many years.

The Spector Motor Service, Inc., is a Missouri corporation with its principal business office in Chicago. During the period involved in the tax controversy, it was engaged exclusively in the transportation of freight in interstate commerce as a common carrier, with terminals in various states, including Connecticut.

Disputed tax

In a proceeding in the United States District Court for the District of Connecticut, Spector had sought a judgment declaring that the tax did not apply to it, and that if it did, it was unconstitutional under both the Federal and Connecticut Constitutions, and enjoining the Tax Commissioner from collecting the tax. The District Court held that the plaintiff was not subject to the tax, and directed the issuance of an injunction. The Tax Commissioner appealed to the Circuit Court of Appeals for the Second Circuit which reversed the District Court and held the tax constitutional. The case then went to the United States Supreme Court which vacated the judgment of the Circuit Court and remanded the case to the District Court to be retained pending determination of proceedings to be brought in the Connecticut State Courts to determine the meaning and application of the statute.

The Connecticut Supreme Court of Errors, on August 25, 1948, held that the tax was on the privilege of doing business as a corporation in the state, and was not in violation of the State Constitution, but declined to pass on its validity under the Federal Constitution. The case in the Federal Court then proceeded to the Supreme Court which, in a six to three ruling, held that in view of the fact that, as determined by the Connecticut Supreme Court of Errors, the tax was levied solely on the "privilege" of doing business in the state, it was unconstitutional so long as the entire business of the company was interstate in character.

Levied for wrong purpose

The court found the tax objectionable, not because it placed an unduly heavy burden on interstate commerce in return for protection given by the state, but rather because it was "placed unequivocally upon the corporation's franchise for the privilege of carrying on exclusive interstate transportation in the state."

The court indicated that had the tax been levied as compensation for the use of highways, or collected in lieu of a property tax, or as a fee for an inspection, or a tax on sales or use, it might have been lawfully imposed. But even though the financial burden on interstate commerce might in such event have been the same, the court said that "the question whether a state may validly make interstate commerce pay its way depends * * * upon the constitutional channel through which it attempts to do so," and that the states have delegated to the United States the exclusive power to tax the privilege to engage in interstate commerce.

Blasts from the minority

In a strong dissenting opinion written by Mr. Justice Clark (with whom Mr. Justice Black and Mr. Justice Douglas joined), the minority pointed out that it had "taken eight years and eight courts to bring this battered litigation to an end," and that the taxes involved go back thirteen years. "It is * * * no answer to Connecticut and some thirty other states who have similar tax measures, that they can now collect the same revenues by enacting laws more felicitously drafted. Because of its failure to use the right tag, Connecticut cannot collect from Spector for the years 1937 to date, and it and other states may well have past collections taken away and turned into taxpayers' bonanzas by suits for refund which come within the respective statutes of limitation. Nor can the states be entirely certain that statutes recast in the light of this decision will be immune from later attack."

The practical effect of the decision will probably be that the thirty states having statutes similar to the Connecticut statute, will attempt to recast them in the light of the majority opinion in the Spector case. If successful in so doing, and having, as the minority said, correctly "tagged" the revised statute, they should be able to collect precisely the same amount in taxes from precisely the same taxpayers under precisely the same conditions as heretofore.

More important to the taxpayers will be the ability to claim refunds of taxes paid under the statutes declared invalid.

•

Make a point of checking Carl B. Everberg's new series—what you can do and cannot do as a creditor each month. See page 13.

Which is better—to cure the patient or to sign his death certificate? In credit . . .

You're the doctor!

by W. H. CARHART

Credit Manager, Westinghouse Electric Supply Co., Richmond, Va.

THE net profit enjoyed by many business operations is represented by the gross profit present in the sale of the product to the borderline accounts. In other words. the difference between the cost and selling price of the merchandise we sell to our good-paying customers is sufficient only to pay our overhead and other fixed expenses. That is what we commonly call our "break-even" point. Without the borderline accounts which can be processed by an experienced credit manager, there will be no sizable profit on operations. Of course, this may not be true in 100% of the cases examined, but it is a fundamental fact, and will be an accurate statement nine times out of ten.

The credit man's babies

What is borderline business? It is the business represented by the sale of our merchandise on credit to customers whose moral, financial, or *ability* values do not meet indisputably desirable standards. That is simply another way of going back to our familiar three "C's" of credit. These accounts are our babies. They are there on our books because we have the ability to see, by experience, some reasonable chance of getting our money. We have the experience to recognize obvious weaknesses and we know how to handle them; we also know how to search for those weaknesses not obvious, and as a result of all this we can calculate how far we can safely go with our company's money. We must then continually watch the investment that is finally made and get the money when due, or as soon thereafter as possible.

If a previously good-paying customer gets into the ninety-day column, then he, too, drops into our group of problem children. If an account is ninety days or more past due, it seems to me that our obvious duty is to call on that customer in person and find out, first, why he cannot pay and, second, what the chances might be of our losing the investment entirely—together with the customer.

In many siutations it is very difficult, if not impossible, for the credit manager to travel over wide areas in order to investigate these problems. Nevertheless, it is our duty to see that customer in person —or through a trained representative—and get the facts. What we want to know is (1) what the customer HAS and (2) what he OWES.

How to get your facts

Reference to your latest financial statements will help to the point of estimating how badly off he may be. In doing this we have to observe the margin between his current assets and current liabilities, and, after weighing what you know about his *present* condition, ponder upon the course to pursue. It should be our job to find out with as much accuracy as possible how much he owes now by making thorough interchange clearances, through our local groups, direct mail inquiries and sometimes by personal investigation in the debtor's locality. *Then* go to see the customer.

With a little practice, you will be surprised how accurately you can estimate the value of his visible inventory. If he has a warehouse, you can find some way to see it and its contents. Almost every debtor will tell you anything you want to know if you are a good salesman. Gain his confidence and convince him that you are there to help him. Find out the value of his receivables from him and add that to your mental estimate of the value of the inventory. Compare that figure with *what you know he owes.* And don't forget the money they all owe which you know nothing about, to the local newspapers, utilities, insurance companies, truck and auto repair establishments, and, if a proprietorship, the doctor bills, grocery bills, etc., all of which are also undoubtedly past due.

If the margin of the current assets mentioned is not in good proportion to the current liabilities, you have a very sick customer. This is especially true if his business is bad and he is not turning his inventory or collecting his receivables at a healthy rate. You are the doctor from that point on.

Who's to blame?

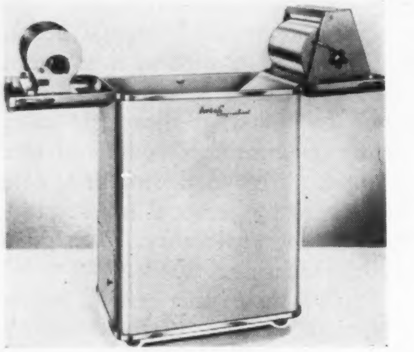
After making a careful study, covering many years, of the problems involved in the treatment of ailing, financially involved debtors, I have

(*Continued on page 35*)

In the MODERN office

Photocopies in minutes

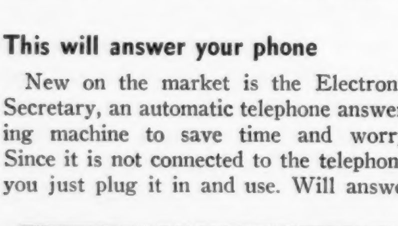
A new development in photocopy equipment has been released for general office use by American Photocopy Equipment Company, 2849 North Clark Street, Chicago 14, Ill. It is a complete photocopy outfit with all component parts in one movable cabinet occupying only 26x18" floor space. When cabinet top is open,



contact printer is ready for instant use. Prints placed in stainless steel holders are quickly developed and fixed by insertion in proper slots—without being touched by the hands. Electric dryer compartment completes process, and in a few seconds produces exact copies of letters, photos, documents, checks, wage assignments, mortgages, account cards and forms up to legal size. No special dark room is needed as unit operates in subdued light of office. Estimates bulky equipment and can be moved from office to office to meet changing work requirements, or rolled away when not in use.

This will answer your phone

New on the market is the Electronic Secretary, an automatic telephone answering machine to save time and worry. Since it is not connected to the telephone, you just plug it in and use. Will answer



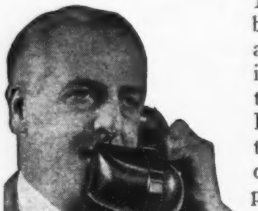
the phone, take orders or messages, tell a caller when his party will return, and in case of emergency at night, will tell the caller where to get service. One owner has all night calls transferred to his home when the office is closed, thereby receiving all special and emergency calls. As an additional feature, the complete three-piece unit can serve as a handy portable dictation machine. For literature—Electric Secretary Distributors, 803 W. National Ave., Milwaukee 4, Wisconsin.

New Addressograph plate

A single machine operation providing Addressograph advantages in writing repetitive information PLUS simultaneous automatic printing and accumulation of related figure data is now available in the Accounting Addressograph, Class 9100, introduced by the Addressograph-Multigraph Corporation of Cleveland. Descriptive information is embossed in the usual way into the printing section of plates. Figure information is added by punched holes. Standard classification tabs provide for automatic selection. A single master record incorporates complete assemblies of related descriptions and figures. The machine provides speed —one machine cycle writes up to 400 characters on business forms and simultaneously posts and accumulates complete entry of punched hole figure data. Accurate—mechanically proved at time master record is prepared. No checking necessary. Machine operation is extremely simple. Progressively accumulated totals provide accurate and automatic checks against pre-established balances. Machine controls govern operations and results. The Addressograph Corporation will make a study of where this machine will fit into your business and furnish a report without obligation.

A "husher" for your phone

"Make Your Phone Private As A Booth" is the slogan of the Hush-A-Phone Corporation, 65 Madison Avenue, New York. Of black bakelite or acetate, weighing about 5 ozs. the Hush-A-Phone snaps on the transmitter of a handset phone and solves three phone problems — privacy of conver-



sation, office quiet and better hearing. Write to them for a set of "Key Color" markers for key identification which they are offering as a souvenir of their 30th year in business.

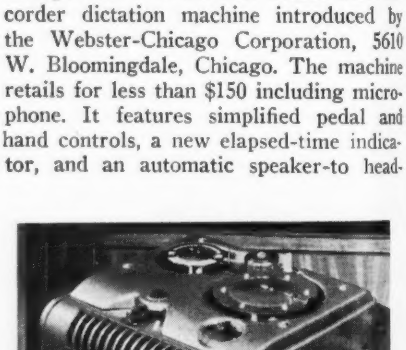
Staple remover attached

A combination stapler *and* staple remover, which the manufacturers, Bostitch, 395 Mechanic St., Westerly, R. I., claim to be the first on the market, is now available. The remover is a permanent fixture of the B8 desk stapler, hard to

misplace, and always ready for use. It is a blade-like fixture attached to the plastic base of the stapler. Merely slide the remover blade under the staple and push. The blade does the rest, without lifting or twisting. Inexpensive, yet it will make stapling easier and much more useful for you.

Improved Wire Recorder

Several major improvements have been incorporated into the new model wire recorder dictation machine introduced by the Webster-Chicago Corporation, 5610 W. Bloomingdale, Chicago. The machine retails for less than $150 including microphone. It features simplified pedal and hand controls, a new elapsed-time indicator, and an automatic speaker-to head-



phone switch. A new improved mechanism makes it virtually impossible to snare and spill the wire. Clarity of voice reproduction makes it excellent for recording meetings, conferences, interviews, rehearsing talks, as well as dictating, and can also be used for stock inventory. Weighs 20 lbs. and carrying case is available. Same recording wire can be used over and over, and sound is erased by recording over same wire eliminating separate erasing operation.

In writing these manufacturers, please mention you saw it in CREDIT AND FINANCIAL MANAGEMENT.

GRANGER H. SMITH
Buhner Fertilizer Company
Seymour, Indiana

Granger H. Smith Wins Grand Prize for Best Letter in Three Contests

GRANGER H. SMITH, controller, Buhner Fertilizer Company, Seymour, Indiana, has been announced as grand prize winner in the letter-writing contest sponsored by this publication. Mr. Smith's letter which won the third contest, was almost unanimously judged the best of the three contests by the members of the National Publications Committee.

The prize is to be awarded during the Wednesday morning session of the 55th annual Credit Congress in Boston, Mass.

Commenting on the contest, committee chairman Irwin Stumborg, credit manager of the Baldwin Piano Company, Cincinnati, and national director for the fourth distirct, said:

"When our National President, A. J. Sutherland, asked me to undertake the chairmanship of the National Publications Committee I had little or no idea what, if anything, the job entailed, but, being a loyal and obedient member of the credit family, I accepted.

"I know now!

"During the past few months we of the National Publications Commitee have been called upon to wade diligently through piles of letters, most of them very good, and to try to agree on which of them was better than all the others. It was no easy task, I assure you.

"There were many hundreds of entries for the three letter-writing contests which our national magazine, Credit and Financial Management, sponsored at the first of the year. Each one had to be anal-

(*Continued on page 40*)

THIS IS THE GRAND PRIZE WINNER

January 7, 1951

For quite some time the management of our company has been noticing the steady growth and progress of your business. It is a source of satisfaction to feel you have permitted us to share in it. The increasing volume of orders we are receiving indicates a close association which we value highly.

A word of appreciation upon your excellent paying record is also in order. We have never had any worries about your account on that score! We know you will continue to meet your responsibilities to the limit of your ability.

I have just finished looking over your current financial statement, however, and must mention several trends which could lead to future difficulty. You may be aware of them. While your gross sales have been growing, your inventory and accounts receivable have increased in greater proportion. Your new store building has attracted new customers, but the cost took a large share of your working capital and higher fixed charges are tending to reduce your margin of profit.

These conditions could cause you a great deal of worry if you allowed to get out of hand. In such a case, we could become involved also. It is with our mutual interests in mind, therefore, that I am temporarily suggesting a $10,000 maximum account balance at any one time.

Within the next month, I am planning a trip in the territory and am looking forward to having a visit with you. We can discuss this matter more fully then. I am confident that some arrangements can be made if you feel this credit line is inadequate for the needs of your business.

Sincerely yours,
Jerome King, Credit Mgr.

OAKLAND
George Gitchell
Pacific Tel. & Tel. Co.

CINCINNATI
Charles Dickhaut
Hyde Park Clothes, Inc.

WATERLOO
E. S. Peterson
Iowa Public Serv. Co.

ASSOCIATION PRESIDENTS

ALMOST every month for the past few years we have featured on this page men—and women too—who have been chosen by their fellow-members to pilot their associations. Almost every month the job the pilots take on becomes more and more difficult and perplexing.

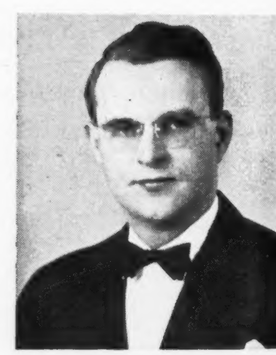
It is axiomatic, however, that there will always be found men who are so busy and beset with so many problems that they can always find time to be busier and cope with more problems. Here are some of them.

The associations headed by these men are a real cross-section of the NACM. Some associations are big, some small. But the future of NACM depends, as did its splendid past, on the efforts and foresight of all leaders, from big centers and small centers alike. Let us not forget that the prime mover in the founding of NACM came from Sioux City, Iowa, which, in population may not compare with some other centers, but which is as important to the commercial health of its State as is any metropolis.

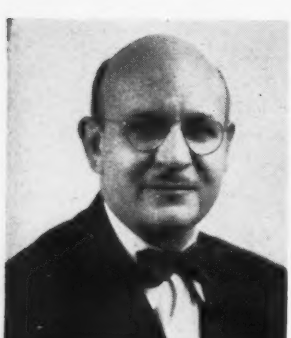
NEW ORLEANS
T. A. Shaw
Modern Appliance & Sup. Co.

HARTFORD
John A. Gray
Phoenix Insurance Co.

DALLAS
Tyler T. Harrison
Mosher Steel Co.



MUSKEGON
Donald Nesburg
Automotive Supply Co.



PHILADELPHIA
A. C. Schnitzler
Nat. Airoil Burner Co.

DULUTH
Willard Ario
First & American Nat. Bank

BOISE
F. O. Jevons
Olson Mfg. Co.

ASSOCIATION NEWS

NACM Ups Anchor For Third Move in Fifty-five Years

AFTER twenty-five years on the tenth floor of One Park Avenue, New York, the National Association of Credit Men is moving its executive offices. The new address: 229 Fourth Avenue, New York 3, N. Y., fourteen blocks south of the present location.

The move will take place about June 1. It's the old story—the dam has finally burst. More space was—is—urgently needed and more space was not available at the present location. Moreover, for two years the Credit Research Foundation and the National Institute of Credit have been situated on Madison Avenue, five blocks away, and though five blocks are not a great distance there has been real inconvenience and loss of time caused by the separation.

A little searching through the records shows that this is the third move in the NACM's fifty-six year history. The first office was downtown at 20 Nassau Street in the heart of the insurance district. Then in 1905 the Association moved up to 41 Park Row, opposite the Woolworth Building and City Hall. Again in 1926 the Association moved further uptown to One Park Avenue. And there we have been for twenty-five years.

The new arrangement will make for more convenience and comfort than the National staff has known for many years. The present quarters are so cramped that people have practically been working sitting on each other's shoulders. The new location will provide more space, more light and better facilities for the physical arrangement of the various departments. Moreover, all departments will be housed on the same floor of the same building.

Philadelphia Holds Annual President's Reception and Dinner

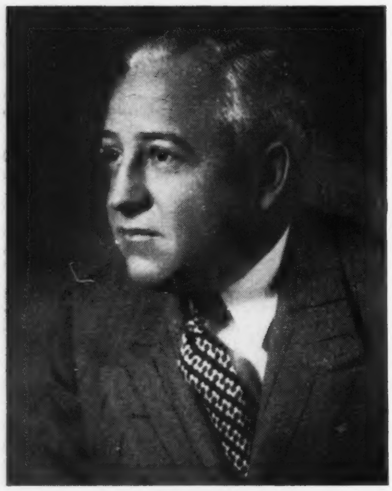
Philadelphia: The Credit Men's Association of Eastern Pennsylvania held its annual president's reception and dinner April 23 at the Llanerch Country Club.

During the afternoon preceding the dinner the Association staged a golf tournament.

Here's The NACM's New Home

This is our new home, on the eighth floor (circled) of the Pocono Building. On or about June 1st we'll take to the road for the fourteen block move, the third in NACM history, and the first in twenty-five years.

New York Elects R. G. Woodbury As 1951 President



New York: The annual meeting of the New York Credit and Financial Management Association was held in the Association offices May 3. The main item of business was the election of officers for the coming year. The results:

President, R. G. Woodbury, Textile Banking Company, Inc., president; F. W. Zander, United States Plywood Corporation, 1st vice-president; A. J. Smith, J. P. Stevens & Co., Inc., W. R. Dunn, General Foods Corporation, and George J. Schatz, Commercial Factors Corporation, vice-president, and William F. Egelhofer, Henry Glass & Company, treasurer.

Kansas City Member Celebrates Fifty Years with Company

Kansas City: J. Emmett Woodmansee, president of the Richards & Conover Hardware Company since 1943, and treasurer since 1914, recently celebrated his fiftieth anniversary with the company. He started as an office boy at $4.50 a week and among other posts he held was that of credit manager which he held for many years.

The Kansas City Star took notice of the event and his colleagues at Richards & Conover took a full page advertisement as tribute to Mr. Woodmansee.

Miller Promoted at Celanese

Edward H. Miller has been appointed an Assistant Treasurer of Celanese Corporation of America. His principal duties will be the supervision of Credits and Collections. Before appointment to this post, Mr. Miller was successively Credit Manager of the Plastics and Chemicals Division and Director of Sales of Plasitc Molding Materials.

Canadian Parson Addresses Closing Seattle Meeting

Seattle: For its last meeting of the 1950-51 season the Seattle Association of Credit Men invited the Rev. William Hills, rector, St. George's Parish, Victoria, B. C., as guest speaker.

Mr. Hills served in the Royal Canadian Navy in World War II and was later loaned to the Royal Navy. In the past year he has fulfilled more than thirty major speaking engagements in Canada and the United States.

Psychologist Heard At Pittsburgh Meeting

Pittsburgh: Dr. George W. Crane, noted psychologist, was guest speaker at the annual meeting and dinner of the Credit Association of Western Pennsylvania on Thursday, May 3.

Dr. Crane is the author of two syndicated columns—"Worry Clinic" and "Test Your Horse Sense."

Foreign Trade Expert Speaks on Communism

New Orleans: "Communism as I see it" was the subject of a talk given at the April 11 credit luncheon of the New Orleans Credit Men's Association. The speaker was George S. Sawicki, assistant director, World Trade Development, International House.

Hartford Annual Meeting Took Place April 18th

Hartford: The annual meeting of the Hartford Association of Credit Men took place April 18 at the Wethersfield Country Club. Carl A. Gray, president and director of the Grenby Manufacturing Company, was guest speaker.

New Jersey Forum Is Devoted to Guarantees And Credit Counseling

Newark: On Thursday, April 12, the New Jersey Association of Credit Executives held another in its series of credit forums. The topics were "Increasing and Protecting Sales with Guarantees and Other Methods of Securing the Account Receivable" and "The Credit Executive as Counselor to Customers." The moderators were Oscar Stevens, and Allen C. Beach, both of Sherwin-Williams Co. The forums were sponsored by the Senior Credit Executive Round Table.

Binghamton: Martin A. Helfer, superintendent of Schools, Binghamton, N. Y., spoke at the April 11 meeting of the Triple Cities Association of Credit Men on the subject of educational finance.

Chicago Credit Men's President Is D. A. Grant

Chicago: D. A. Grant, Socony-Vacuum Oil Company, Inc., was elected president of the Chicago Association of Credit Men at the annual election held at Association Headquarters.

Other officers and directors elected were: first vice-president, W. J. Gielen, Hilton Hotels Corporation; second vice-president, E. E. Diehl, Westinghouse Electric Corporation; treasurer, W. C. Bruhn, The First National Bank of Chicago.

Directors—3 year term—H. J. Christophersen, E. J. Brach and Sons; H. J. Cunningham, Stromberg-Carlson Company; F. E. Gibson, Graybar Electric Company, Inc.; L. T. Hadley, Goodman Manufacturing Company; Ms. Karla J. Howe, Great Lakes Varnish Works, Inc.; E. A. Luther, National Surety Corporation, and R. A. Mattson, Belden Manufacturing Company.

POSITIONS WANTED

Credit Man—Accounting degree. Ten years experience. Aggressive. Dependable. Draft exempt. Will assume responsibility or assist in establishment, supervision all operations; original offering to bankruptcy. Available immediately. Request resume. Box M-1, Credit and Financial Management.

Industrial Credit Manager: Seasoned experience on national scale in industrial credit administration. Accustomed to large volume, multiple plant and sales office operations, personal customer and bank contacts, diplomatic relations with top management. B.B.A., M.B.A. degrees, 33, family, will relocate. Resume upon request. Box M-2, Credit and Financial Management.

Credit Manager—Extensive hard goods experience on volume basis with minimum loss record. Commercial financing background with proven ability to arrange dealer wholesale and retail financing at local bank or finance company level. Thoroughly familiar with warehousing procedures, sales promotion, exhaustive collection techniques and sales to contractors on job secured basis. Available for Southern California assignment on 30 day notice. Abstract and personal history on request. Box M-3, Credit and Financial Management.

Employed industrial credit manager, national scale. Executive assistant, policy level. Organized credit department present employer. Sales minded, with accounting, legal and administrative background; also languages. Government contracts, etc., seeks position larger scope with progressive organization. Age 32, Family. Box M-4, Credit and Financial Management.

Secretaries To Hold Conference Before Congress

Cambridge, Mass.: The secretary-managers will open their annual nation-wide conference at the Commander Hotel Thursday morning's session will deal with last from Thursday morning until Saturday noon.

The program is a full one and will cover all phases of Association management. Thursday morning's session will deal with inter-association cooperation and state and district conferences. Thursday afternoon the secretaries will deal with National Interchange, its methods, results, responsibilities and finances, sales and promotion material and groups.

Friday morning will be devoted to adjustment bureau matters and Friday afternoon to collection bureaus. Saturday morning secretaries will receive reports on departmental services of the NACM. The conference will close with a question and answer session.

Public Relations Expert Is Speaker At Detroit Meeting

Detroit: Franklyn Waltman, director of public relations, Sun Oil Company, chose "Oil Faces a Challenge" as the subject of his talk before the Detroit Association April 10.

Mr. Waltman in 1930 won the Pugsley Journalistic Award, administered by the National Press Club for the most noteworthy work by a Washington correspondent during that year.

Memphis Offers T-V Set As First Prize in Race To Gather Memberships

Memphis: The Memphis Association of Credit Men is conducting a television set contest as a feature of its membership promotion work. The contest is based on points obtained by lining up prospects for membership in the Memphis Association. In addition to a first prize television set there are three other cash prizes with special prizes going to those who earn 300 points or more in the contest.

Insurance Discussed At Omaha April Meet

Omaha: The Omaha Association of Credit Men's April meeting was devoted to a discussion of insurance problems in general and business life insurance in particular. The program was arranged by the insurance advisory committee under the leadership of Sam B. Starrett, Jr., Guarantee Mutual Life Company.

News from the CREDIT WOMEN'S GROUPS

San Diego: The Wholesale Credit Women's Club of San Diego sponsored a Dinner-Dance with the Zebras, April 6th, 1951.

Members of the Association were invited and about two hundred attended. The Dinner-Dance was held at the "El Morocco" Club, and at the conclusion of the dinner the newly-elected officers of the Women's Club were installed. Miss Lucille Miller of Don W. Snyder Co. is President. Dorothy Blank, Vice-President; Mrs. Rachel Bigge, Secretary; and Beatrice Olson of S. J. Wines Coffee Co. is Treasurer.

Mrs. Pat Lucas of Hages, Ltd., retiring President, noted that membership in the Women's Club had increased 40% due to the fine work of all members during the past year.

The "El Morocco" Club was delightfully decorated with a mass of potted daffodils as the main feature, on each table. Faye Bedillion, in charge of decorations, was highly commended for her efforts. The party was so successful, that it was unanimously decided to have it as an annual occasion.

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Boston: The monthly meeting of the Credit Women's Group of Boston was held Thursday evening, April 12, at the Pioneer Hotel, Boston.

The guest speaker for the evening was Mrs. Hermine A. Fischer, credit supervisor for the Christian Science Publishing Society for the past eighteen years. Her subject was "Advertising Charge Accounts and Credit Education."

Mrs. Fischer is well able to speak on both of these subjects due to her experience in dealing with advertisers in the Christian Science Monitor and also the fact that she has been interested in Credit Education for a long time in working with the Boston Chapter, National Institute of Credit.

Her talk was followed by the showing of technicolor films which featured Nova Scotia with its beautiful scenery and its many facilities for hunting and fishing.

The new officers for the 1951-52 season are: Mrs. Elsie Gregg, President; Mrs. Marion Gore, Vice President; Miss Catherine Sheehan, Treasurer, and Miss Sarah Serson, Secretary.

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Davenport: The Credit Women's Group of the Quad City NACM held their regular meeting April 9 at the Lend-A-Hand Club in Davenport. We had a good attendance and, for the first time in months, good weather. Election of officers was held and the new officers are as follows:

Pres.—Miss Ethel Dahms, H. T. Proestler Co.; Vice-Pres.—Mrs. Helen Hogarth, Crescent Electric; Secretary—Miss Louise Emeis, G. S. Johnson Co.: Treasurer—Mrs. Helen Bunce, Globe Mach. & Supply Co.

As our guest of the evening we had Miss Frances Sollenberger who spoke about a vacation she took to Guatemala and Yucatan. Her talk was illustrated by colored slides.

•

Cleveland: The annual meeting of the Cleveland Credit Women's Club was held on Tuesday evening, April 10th, at the University Club. Complete reports for the year were given by the various committee chairmen and by Kathryn Sirc, editor of the club's publication "Forest City Breeze."

Mrs. Harriet Silvers, of Toledo, a member of the National Credit Women's Executive Committee, was a guest for the evening.

The slate of officers as presented by the nominating committee was elected by a unanimous vote; they are: Mrs. Mae McCafferty, of National Screw & Mfg. Company, President; Miss Ethel Bemis, of Cuyahoga Spring Company, Vice President; Miss Evelyn Strand, of McKesson & Robbins, Inc., Treasurer; and Miss Lillian Murphy, of the Cleveland Association of Credit Men, Secretary. Installation of the new officers was conducted by Miss Dorothy Dutton, of The Cleveland Cliffs Iron Company.

The retiring president, Mrs. Pearl Dolan, was presented with a lovely strand of crystals in recognition of her year in this office.

The lighter side of the evening was a Canasta and Bridge Party arranged by the Program Committee, with beautiful favors, table and door prizes.

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Louisville, Ky.: Our annual meeting was held in March and the following new officers were elected: Antoinette Schweitzer, President; L. Lenore Lyon, Vice President; Helen True, Secretary; Agnes Zurkuhlen, Treasurer.

Antoinette Schweitzer will be our delegate to the Credit Congress in Boston.

Our speaker for the meeting was our own Alleen Harrison, with a brief talk by our Association President Bill Watts.

Newark: The New Jersey Credit Women's Group met at Krieger's April 17 for their monthly dinner meeting. William H. Whitney, executive manager of the New Jersey Association of Credit Executives, spoke on "Meetings of Creditors on Debtor Accounts."

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Omaha: The Omaha Credit Women's Group held their monthly meeting March 8 at the Fontenelle Hotel with E. H. Dunaway as guest speaker. Mr. Dunaway is Social Security administrator.

St. Louis: Our regular monthly meeting was held April 26, 1951, at the Melbourne Hotel.

Mr. C. W. Ritchie, Mississippi Valley Trust Co., who is Secretary of the St. Louis Association of Credit Men's bowling league was the speaker.

Following this, election of officers was held, and reports from the various Committees.

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Oakland: The Oakland Credit Women's Group met at the Robin Hood Inn on April 16th for the installation of officers newly appointed for the year 1951-1952. They were Mary Lorentzen (second term) president; Doris Coates, vice-president; Angela Ragghianti, secretary; Gertrude Eckstein, treasurer. Ellen Anderson, member of the National Executive Committee, was installing officer.

Presentations of corsages were made to the incoming officers with words of encouragement and success.

Martha Stanka, first president of the Oakland group, gave a well prepared talk on the progress and constructive years since organizing in 1944.

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Houston: On Tuesday Evening, April 10, at the Lamar Hotel, the Wholesale Credit Women's Club of Houston was hostess to the Houston Association of Credit Men.

The beautiful dining room was very festive with lovely spring flowers.

Miss Blanche Atkins, accompanied by Mrs. Pearl Harrington, contributed to the entertainment by her beautiful rendition of a number of lovely vocal selections. Miss Atkins is a talented young professional singer who recently came to Houston from San Francisco.

Dr. Esther Marian Nelson, supervisor of Social Studies at the University of Houston and the public school system gave a most interesting discussion on Current Events in the Far East. Dr. Nelson, who received her doctorate degree from Columbia University and is a world traveler, served in the Intelligence Department as a major in the Air Force during World War II and she was also editor of the Intelligence Bulletin. As she was stationed in the Far East and had direct contact with all phases of the war effort in that section and has made a careful study of conditions in that section, she very ably presented a word picture of the present trends. Her Open Forum at the conclusion of her discussion proved most informative.

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Cincinnati: Mrs. Louise Dragsett, of The Estate Stove Company, Hamilton, Ohio, and Miss Mary Huseman, of South Western Publishing Company, Cincinnati, Ohio, were recommended by the University of Cincinnati, Ohio, as outstanding students in "Credits & Collecions" and have been awarded our 1949 and 1950 scholarships.

"Our entire membership wishes them continued success in their studies and welcome them as members in our organization."

Insurance Subject Of Final Forum Of St. Louis Season

St. Louis: The St. Louis Association of Credit Men closed its forum season April 12 with a discussion of insurance coverage. William A. Gray, National Surety Corporation, was chairman of the meeting.

Fire and Allied Lines were discussed by Will S. Ellis, Royal-Liverpool Group. S. L. Bodman, Marine Office of America, spoke on Marine Insurance; L. H. Antoine, American-Association Companies, covered Automobile, Public Liability and Workmen's Compensation, and J. H. Searles, Fidelity & Deposit Company of Maryland rounded out the program with a talk on Fidelity, Surety and Burglary.

Casualty and Surety Accountants to Hear Factory Executive

New York: The Casualty & Surety Accountants Association of New York City members and their guests will have as speaker Harry J. Delaney on credits and collections with particular emphasis on the collection picture nation-wide. President Cortlandt Booth of the American-insurance group reports the meeting will be held at 12:30 PM, May 8th, at De Palma Restaurant, 64 Cliff Street.

Mr. Delaney, well known in the credit field, is executive vice-president of Meinhard, Greeff & Co., Inc.; textile factors, with whom he has been associated for the past 28 years. As past president of the New York Credit and Financial Management Association, formerly a director of the National Association of Credit Men, and on the advisory board of the Manufacturers Trust Co., his talk should prove most enlightening.

J. E. Campbell Retires from Sherwin-Williams

Cleveland: J. E. Campbell, manager of credits and accounting for the North Central Region of The Sherwin-Williams Co., retired after completing 46 years with the concern.

He was succeeded by Walter W. Beuther, formerly assistant manager of credits and accounting. Beuther started with the company in 1927 as an office boy.

Campbell was honored at a testimonial luncheon at the Hotel Cleveland. A. H. Burt, North Central regional director, presented him with a set of luggage as a gift from his colleagues.

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Milwaukee: The Milwaukee herd was reactivated April 18. The herd has been dormant since 1945. Elmer Kroening, division ranger for the Central States, invited all past Zebras and twelve qualified initiates.

Alabama Credit Men Review Par Clearance Fight

A bill for the par-clearance of checks by all banks of Alabama came before the interim committee on revision of laws for a public hearing on Tuesday, March 27. A delegation from the Alabama Association of Credit Executives spoke on behalf of the proposed law. Also representatives of the Automotive Wholesalers Association of Alabama and of the Wholesale Grocers of Alabama spoke for it.

The committee voted in favor of the proposed law.

The question of par-clearance has been raised in Alabama time and time again and the Alabama Association has been waging a continuing fight for complete par-clearance throughout the State. There have been several banks which voluntarily went on a par basis but there still remain 140 which do not clear at par. The proposed par-clearance law has received wide and favorable publicity in the Alabama newspapers.

Television Is Subject Of Milwaukee Meeting

Milwaukee: Fred J. Van Zeeland, director of the College of Electrical Engineering, Milwaukee School of Engineering, addressed the Milwaukee Association's noon luncheon club March 22 on "The color television story."

The Association's NIC chapter held its regular monthly meeting March 12. The members heard John C. Partee, economist of the Federal Reserve Bank of Chicago, speak on the role of credit controls in the present emergency.

Terre Haute Credit Men Hear From Representatives

Terre Haute: Two senators, Jack O'Grady and Leonard Conrad, and three representatives, Richard Cronin, John Ryan and Walter Maehling, of the Indiana Legislature, were guests and speakers at the March 16 noon meeting of the Terre Haute Association of Credit Men.

Each spoke on what has been accomplished during the last session and answered questions on members' recommendations.

Galloway Heard on Customer Relations at Rochester

Rochester: R. Lynn Galloway, general credit manager, Eastman Kodak Company, spoke on customer relations at the March meeting of the Rochester Association of Credit Men.

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Nashville: William J. Petway, credit manager of McKesson & Robbins, Inc., since 1917 has retired and will be succeeded by Thomas P. Anderson June 1.

Mr. Petway is one of the oldest members of the Nashville Association of Credit Men which he has served as director and vice-president.

Amendments to N.A.C.M. Bylaws being Presented at 1951 Convention in Boston

As NOTED in the January and April issues of Credit and Financial Management, amendments to the Bylaws of the National Association of Credit Men will be submitted for vote by the delegates during the 55th annual Credit Congress. The proposed amendments follow. This is the second publication of these proposed amendments.

Increase Districts to 12

1. Section 6 (a) of Article III of the Bylaws shall be amended so that it reads as follows:

"For the purposes of voting at regular and special meetings the membership of the Association shall be divided into 12 electoral districts as follows:

District 1. Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.
District 2. New York, New Jersey.
District 3. Pennsylvania, Maryland, Delaware, Virginia, West Virginia, District of Columbia.
District 4. Georgia, Florida, North and South Carolina, Alabama.
District 5. Indiana, Lower Michigan.
District 6. Illinois, Wisconsin, North Michigan.
District 7. Kentucky, Tennessee, Ohio.
District 8. Missouri, Arkansas, Louisiana, Mississippi, Kansas.
District 9. Iowa, Minnesota, Nebraska, North and South Dakota.
District 10. Colorado, Utah, Montana, Idaho, Wyoming.
District 11. Texas, Oklahoma, New Mexico, Arizona.
District 12. California, Nevada, Oregon, Washington, Hawaii.

"The preceding districts shall further be grouped into three major Divisions as follows: The Eastern Division which shall include Districts 1 to 4; the Central Division which shall include Districts 5 to 9 and 11; the Western Division which shall include Districts 10 and 12.

Provides for 27 Directors

2. Sections 2 annd 3 of Article V of the Bylaws shall be amended so that they will read as follows:

"**Section 2.** Number. The Board of Directors shall consist of 31 persons all of whom shall be direct or affiliated members, or designated representatives of such members of the Association in good standing, and shall include the President and three Vice Presidents of equal rank, elected to represent the three major Divisions of this Association. The remaining 27 directors shall be chosen to represent the 12 electoral districts specified in Article III, Section 6, of these Bylaws, provided, however, that there shall be at least one but not more than three such directors chosen for each of said districts, and that not over 50% of the entire membership of the Board of Directors may come from any one division.

"**Section 3.** Election and Term of Office. One-third of the total number of directors shall be elected annually by ballot, and each director shall hold office for a term of three years following the date of his election and until his successor is elected, but no director shall be eligible for reelection immediately following the completion of a full term of office; provided, however, that nothing herein contained shall be construed to shorten the term of office of any director elected prior to the adoption of these by-laws and provided further that of the three additional directors to be elected for the Association year of 1951-52, one shall be elected for a term of three years, one for a term of two years, and one for a term of one year.

NOTICE

As required by Article XIV of the bylaws of the National Association of Credit Men notice is hereby given that the Syracuse Association of Credit Men, the Jacksonville Association of Credit Men, the Baltimore Association of Credit Men and the New Jersey Association of Credit Executives will present at the annual convention of the National Association of Credit Men the following proposal as a substitute for item 3 of the amendment proposed by the National Board of Directors: (See notice of proposed amendments published in Credit and Financial Management in the January and April, 1951, issues.)

"Article IV, Section 1 shall be amended to read as follows:

"Section 1. Affiliated Associations. Each affiliated Association shall pay to this Association dues at the rate of $8.50 per annum for each member of such affiliated association. Such dues shall be payable on a pro rata basis on the first day of each month, and shall be based on the membership of the affiliated association as recorded in the office of the Secretary of this Association on the date on which each instalment is payable."

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The secretary-managers of the Eastern division, at their meeting in Tampa, Florida, March 8-10, voted to recommend to their Associations that an additional one dollar per member be paid annually by each affiliated association to the National Association of Credit Men. They made this decision after careful scrutiny of a proposed amendment by the National Board of Directors (which would have taken the form of an added Section 3 to Article IV) providing for a "new member registration fee of $10.00." (See above.) On the advice of counsel, to obviate unnecessary legal verbiage, the $1.00 additional payment voted by the Eastern secretary-managers is incorporated into Article IV, Section 1, instead of introducing it as a separate Section of Article IV.

3. Article IV of the Bylaws shall be amended by adding the following as Section 3:

"In addition to the foregoing annual dues a new member registration fee of $10.00 shall be paid to this Association by or for each direct or affiliated member who shall join this Association subsequent to June 1, 1951. In the case of a reinstated member the new member registration fee shall not be payable if reinstatement takes place within four months of the time the member has dropped for nonpayment of dues."

Changes in Nominations Committee

4. Sections 1 and 2 of Article VIII shall be amended so that they read as follows:

ARTICLE VIII

Nominations

"**Section 1.** Members. There shall be a Committee on Nominations consisting of 29 representatives of affiliated members or of direct members or direct members, consisting of the following: The last retired President of the Association in order of availability who shall serve as Chairman of such Committee; the next four most recently retired Presidents of the Association in order of their availability; one member and one alternate from each of the 12 electoral districts to be designated by the President, with the approval of the Executive Committee, and one member and one alternate from each of the 12 electoral districts to be designated by the Councillors within such districts, but such alternates shall serve only in case of the absence or inability of the member. The names of the persons constituting the Committee on Nominations shall be announced in the official publication of the Association during the month preceding the annual meeting of members.

"**Section 2.** Duties: The Committee on Nominations shall recommend to the annual meeting the name of one candidate for President one for Vice President from the Eastern Division, one for Vice President from the Central Division, and one for Vice President from the Western Division, and for 9 directors, and for the filling of any existing vacancies among the officers or directors of the Association.

Alternate Proposal on Connecticut

5. Section 6 (a) of Article III shall be

amended so that the State of Connecticut is included in District #1 instead of District #2.

Note: In case of the adoption of the first proposed amendment it will not be necessary to vote on the fifth amendment having to do with the change of the State of Connecticut from District #2 to District #1. If the first amendment is not adopted then a separate vote may be taken on this fifth proposal.

NOTICE

During the 55th annual Credit Congress the Associations in the Western Division will propose that Article III, Section 6, of the NACM bylaws be amended so that the membership of the Association shall be divided into 13 electoral districts. This proposed division would supersede the proposed division into 12 districts put forward by the National Board of Directors. (See page 32.

The Western Division proposes that the re-districting as set out by the National Board be followed as far as concerns the prospective districts 1 through 9; that district 10 would consist of Oklahoma and most of Texas; that district 11 would consist of New Mexico, Colorado, Utah, Montana Wyoming, El Paso, Amarillo and Lubbock, Texas, and Boise, Idaho; that district 12 would include Arizona, California, Nevada and Hawaii, and that district 13 would include Oregon, Washington, and all of Idaho except Boise.

As a result of this redistricting the Western Division will propose that the Eastern Division shall include districts 1 through 4, the Central Division 5 through 10 and the Western Division 11, 12 and 13.

These proposals would also include the increase from 29 to 31 representatives on the National Nominations Committee.

The proposed amendment, as worded in the above box, is a condensation of the actual proposal which the Western division will present to the credit congress. In the original version the local associations in each state and the membership figures and votes of these associations mentioned in paragraph two are enumerated.

Voting on the proposed amendments will take place during the first general session of the convention. Time has also been allowed during the final session if delegates are unable to reach a decision during the first session.

These proposed amendments are reprinted here to satisfy the requirements of Article XIV, Section 2, of the bylaws as adopted during last year's convention, that "any proposal for the amendment . . . of these bylaws shall be . . . published in the official publication of the Association . . ."

One-Man Business Clinic

(*Continued from page 17*)

sponsibility of operating a retail enterprise—whether he be the proprietor or the paid manager. It is a real man-sized job. It is a complex job of management requiring a diversity of knowledge and experience to be successful and avoid failure. It is sometimes said that business failures are the result of many divergent factors such as inexperience, lack of working capital, inventory speculation, changes in styles, habits, changes in techniques of production and distribution, etc. Looking beneath the surface it is always discovered that these factors are but the outward expression of the limitation and inability of management. *Only where management is incompetent does a concern go under.* A constant change is always in process, a change which is usually quietly taking place in the method of operation. A business enterprise reflects the guiding hand of the manager and manifests his skill or ineptitude.

Before anyone can be presumed competent to handle a series of important problems, he must *know that these problems exist.* This can only be done by a serious study of the records of the business. Every policy and decision of any executive staff has its reflection somewhere in the assets and liabilities of the balance sheet, the surplus account, or in the profit and loss statement. and is consequently disclosed by the healthy or unhealthy proportions of the various assets, liabilities, and expenses of the enterprise.

Must use available tools

No businessman today can stay at the helm of a modern, complex business and pilot it among the shoals of even ordinary business problems and expect at the end of the year to reach his goal of having achieved a profit, unless *he uses every scientific tool available to him.* It is a continual source of amazement to me when I find an individual risking all of the firm's assets—with little or no knowledge of his problems, and of the jeopardy in which he is placing these assets. He is not being fair to his business, his suppliers, his creditors, and most of all, he is very unfair to himself and to his family who look to him for success in his efforts.

The lush war era and post-war era with the present period of inflation have caried many merchandisers on and upward. Rising inventory prices, quick turnover of receivables, etc., have lulled and are lulling many people into a false sense of security and complacency. These same conditions which have been making many people wealthy will most certainly bankrupt many of them unless they are cognizant of the situation to the extent of being constantly on the alert with proper internal controls.

It is during this period that many of us in the credit field have a tendency to back off, ease up, and slow down, because, generally, we are getting our money and it appears as if we will continue to get it easily for the next couple of years, at least.

It is during periods such as these that the aggressive, forward thinking credit man can do the most and perhaps render the greatest service to his customers. It is a time to raise credit standards and standards of methods and procedure. Educational programs can be established and maintained for the better understanding of credit problems. We can take unto ourselves and assume the responsibilities of financial management counselors. We can become separate one-man business clinics. Who should be better qualified by experience and knowledge than we people who have spent our lifetimes in our own particular industries?

Credit Policy For Over-Bought Market

(*Continued from page 12*)

tled price and supply conditions for some time yet and until buying is back to normal, we at Day's are convinced that interest-bearing invoices are preferable to carrying overdue accounts and more practical to all concerned than a policy of long-delayed delivery of merchandise.

Under any circumstances, our credit losses at Day's are so negligi-

ble as to be infinitesimal, and for these two reasons: (1) Insistence upon adequate financial statements and (2) continual "policing," or vigilance over our accounts.

From the minute a retailer opens an account with us, we have a continuing picture of his financial position. At the outset, the salesman serving him is given a New Account Information form which he is asked to fill out and return with the customer's initial order. Along with the necessary facts to enable us to fill that first order, the salesman checks points which describe the location of the store, its construction, its interior, location, local business conditions, and the salesman's opinion of the retailer's business ability. There is space for listing of three references given by the retailer and we check all of them immediately, by postal card, as a matter of routine.

The reverse side of this form carries a list of merchandising and advertising aids for the dealer. Our salesman explains them to the retailer and checks off what pieces the two of them decide will be needed. These are mailed to the dealer as soon as his first order is credit checked and shipped. The dealer's Dun & Bradstreet rating, if any, is included on the form. However, the actual information on his financial condition is sketchy, although the salesman's opinions as expressed by him on the form do give us a fairly good general picture of the store operation and the responsibility of the management.

Use NACM financial statement

As soon as the customer's original order is recived by us, we delve deeper into his credit and financial structure by mailing him a financial statement which he is asked to fill out and return immediately. This is accompanied by a letter thanking him for that first order, of course. We insist that all financial statements be *mailed* to us, rather than be handed a salesman.

To some it may seem like a small matter, a point for quibbling, but it has been my experience that a man is much more unlikely to willfully distort his financial statement when he knows it is going through the mail. Mail fraud laws are a deterrent to making false financial statements. Rarely, perhaps never, will the threat of prosecution under mail fraud laws be necessary, but the fact of their existence works for keeping a man honest who may have designs to the contrary.

We use the National Association of Credit Men forms, printed up in 5000-lots in envelope style for return mailing. These statements are requested from our customers the first of every year; from all save such accounts that bear an AAA1 rating in Dun & Bradstreet. Mailed out as a matter of routine, they usually are returned to us by February 1. If they are not, a personal letter is sent out requesting them.

Statements carefully scrutinized

Many retailers have found it to their advantage the fact that we scrutinize these statements closely for weaknesses in their business operation. This is done not only for our own protection, but with the view toward the possibility of assisting the customer to become a better business man, or to correct some condition that is working against him by reducing his net profit.

For example, I have found that high rent is one of the most common hazards a men's wear retailer faces. When this gets to be six per cent, or higher, of his gross sales, I know the time has come to advise him to find a way to lower it. This may be done through negotiation with his landlord, or perhaps the same end may be gained by reducing other operating costs to compensate for the high rent factor. When a dealer's gross profit is 36.5, for example, and his operating expenses are 29.5 per cent, he has a net profit of seven per cent, which is a healthy enough position.

This margin is narrowed dangerously, however, when just one cost item, such as rent, gets out of line. If the retailer does not adjust his mark-up to take into account his higher expense percentage, his net will necessarily drop. Such weaknesses are readily detected through a study of financial statements and more often than not it is the dealer, not us, who benefits by our advise.

Visit accounts frequently

Good financial management is the basis for a healthy credit condition and I believe one function of a credit man and comptroller is to offer what assistance to the dealer he can along that line. Beyond that, I find it to the advantage of my company to keep in close contact with our accounts by visiting them frequently. Aside from the fact these visits are goodwill gestures which should not be minimized, they are of intrinsic value in building closer wholesaler-retailer ties, relationships that acquaint me with a retailer's problems and his entire operation, keeping me fully aware of his credit and financial position.

Perhaps this policy of keeping in close touch with our customers is responsible for the workability of our six per cent interest plan, I don't know. I do know, however, it would have been difficult to inaugurate it had I not been on familiar terms with a good percentage of our retailers.

You're the doctor!

(*Continued from page 25*)

come to a definite conclusion. Perhaps many credit men will disagree with me but it is my opinion that if we have a *sizable interest* and we permit that customer to get into bankruptcy, then we have somewhere along the line failed in our job. I feel very deeply about this. Of course there will be varying exceptions to a statement as broad as this but in a general way it appears to me that if a customer in whom we have a substantial interest gets into the bankruptcy courts, we have ourselves failed as well.

A bankrupt estate of twenty thousand dollars, when liquidated at forced sale, will bring only a fraction of its value, say about five thousand dollars in usual cases. What is finally realized in cash is distributed pretty much along a sad, well-known pattern to credit men. The attorney for the bankrupt gets his cut. The attorney for the trustee will get a sizable slice, particularly if it is an involuntary case. The trustee will get his share, the referee his fees and commissions, and after taking out the expenses of administration, advertising, the auctioneer's expense, etc., the poor creditors will receive as a dividend (and what a term that is!) a check which occasionally might buy a few postage stamps. WHY do we let this happen?

Creditors should stick together

Why can't we have a closer contact with these problems? Why can't we have a closer contact with the creditors and SAVE more of these people? I believe it is possible, with few exceptions, to save most of them. If, after a meeting of creditors and a thorough examination of all the facts, it is determined best to liquidate the business, then all of the assets can be best conserved and disposed of through a creditors' committee than in any other way. After all, are they not themselves handling their own money?

In the case of any retail business, as an example, the inventory at cost will show some attractive prices at retail. In the present retail market, assuming that as little as 75% of the inventory is reasonably fresh and desirable merchandise, can it not easily be seen what a bargain on the retail market that merchandise would be if sold even at cost—usually around forty percent below the customary retail price?

Many times, through creditors' meetings and a close study and understanding of the debtor's problem, a business can be saved. Saving a business will, more often than not, save a customer as well. This is our duty, to our profession and our employers, to the debtor and to ourselves.

Get the facts

To sum up, dig into your past due accounts. Nine times out of ten your past due friend is more worried than you are. Go to see him. Get the facts and analyze them. If he needs help, it is your duty and your job to give it to him. If he refuses your help and you can see your money slipping away, get busy. More often than not these problems will work themselves out best through a meeting of creditors. Naturally, if the distress is not too great, you will take definite action and get your money quickly by working alone. But in all other cases, if the rats are running through the debtor's place of business, by all means don't let him continue to slip and wind up in the bankruptcy courts. Don't throw your money away. It is not necessary.

What does it mean?

(*Continued from page 21*)

Have equipment items been purcased on lease-contract? Secured by chattel mortgage? Original amount? What date? Balance due? Payment requirements?

If a manufacturing business, do machinery and tools in this kind of business become quickly obsolete or worn out?

Intangible, yea unreachable

Intangible Assets are not available for the payment of the debts of a going business. Those which might have some salable value (such as patents, copyrights, etc.) are usually needed in the operation of the business. When found on a financial statement, intangible items are likely to be valued not at what they cost when purchased or developed but at somebody's more-or-less optimistic notion of what they might be sold for to some imaginary purchaser at some unforeseen time. In orderly liquidation the imaginary person might materialize with a probably less favorable offer, but in forced liquidation these nebulous values disappear like snowflakes falling in open water.

The presence of intangibles under numerous titles or in substantial amounts on a financial statement may be considered an index of the inadequacy of more substantial assets as viewed by the management. If the management feels the need of blowing up the actual net worth of the business by extra huffs and puffs such as the following, maybe we ought to take a more scrutinizing look at the relationships on the statement, and perhaps even at the principals themselves:

Goodwill. Existence of this item on a statement is only legitimate by good accounting procedure if the unit making the statement bought another business and paid more than book value for its net assets. Even then the item should be on its way out by a systematic amortizing process.

Patents, copyrights, mailing lists, catalogs, trade-marks, franchise rights, formulas, leaseholds, organization expense. If these appear on the statement, their stated value should be no more than their actual cost. Any estimated realizable value is out of order. All of them should be in process of amortization over a reasonably short period.

(For purposes of credit analysis deduct all of these items, including goodwill, from net worth.)

Treasury stock, the corporation's own capital stock which it has repurchased, should also be eliminated from the assets. Deduct it from outstanding stock shown on the other side of the statement, and thus reduce Tangible Net Worth.

II

WE HAVE completed* a rather extensive examination of the usual asset accounts which appear on a financial statement. The over-all point of view was: (1) What items were included in these accounts which, for credit purposes, belong in other categories? (2) What items were included which, for credit purposes should be completely eliminated? (3) To what extent has the value of these assets been overstated?

It will be noticed that while this discussion undertakes only an extensional evaluation of the items on a financial statement, leaving ratios to another chapter, we did consider two relationships, namely sales to accounts receivable, and sales to inventory. The purpose of introducing these two relationships seemingly before their time was to estimate the age of receivables and age of inventory in order to arrive at something close to their actual value and to adjust the statement if need be.

For it is the author's ardent theme song that before financial statement ratios can have any but a very misleading significance, all necessary adjustments should first be made. The ratio, *Inventory to Net Working Capital,* cannot be trusted if both the inventory and the net working capital are inflated by the dead value of unsalable merchandise.

* See the January issue of CREDIT AND FINANCIAL MANAGEMENT, Page 18.

HOW IT FEELS

Tangible Net Worth should be reduced not only by intangible items, but by any other discoverable overstatements before it is compared to other items on the statement. Otherwise you are doing tricks with mere figures, not studying the relationships of what they stand for.

Liabilities

Turning our extensional questions now toward the liability side of the statement, our point of view in a sense becomes reversed. We are looking now not for over-statement but for understatement.

Accounts Payable we examine to learn whether it includes only amounts due to vendors for goods and services purchased, and whether precautions were taken to be sure that all such amounts were included:

Were accounts payable verified as to completeness and accuracy by direct correspondence with vendors and suppliers of record? Was this done by an independent auditor? Did auditor check to insure that all goods that were inventoried had been billed by the vendor, and that all such bills were entered on the books as accounts payable on or before statement date? Were invoices for goods in transit included in accounts payable if this merchandise was counted in the inventory?

Payable to whom?

Did accounts payable include any amounts due customers for claims and adjustments? (Carry as a separate current liability item.)

Did accounts payable include any debit balances for amounts due from vendors, such as for returned merchandise? (If any substantial amounts, carry as a miscellaneous asset, and increase payables accordingly.)

Did accounts payable include any debit balances resulting from advance payment for merchandise not yet delivered? (Transfer to current assets and increase Accounts Payable accordingly.)

Were any amounts due to leased departments included in accounts payable? (List as a separate current liability and decrease Accounts Payable accordingly.)

Were any of these payables secured? By what? By any of the assets listed on this statement? Is this business of a kind that would ordinarily buy services or materials that would expose its assets to a mechanic's lien if not paid for? Did any such liens exist at statement date?

Upon what purchase terms does this firm ordinarily buy its goods and services? To what discount are these liabilities subject?

(Consult operating statement to see if purchase discounts were earned last year. Also consult Credit Interchange Reports to see if creditors have recently reported that discounts were being taken.)

After the exclusions and adjustments suggested above, were payables no greater than average cost of goods sold for the period of purchase terms?

(This question, and the formula given below apply to wholesale and retail businesses only. A similar measurement for manufacturing businesses, as well as refinements of this rather rough yardstick, as here presented, will be discussed next month when various aspects of liquidity will be examined.)

Formula: (For retail and wholesale businesses)

$$\frac{\text{Year's net sales Minus Gross Profit*}}{365} \times \text{Net purchase terms} = \text{Average cost of goods sold during period of net purchase terms}$$

(If payables were greater than the answer to this formula, unusually large purchases may have been made in the month preceding statement date. Or some of the payables may have been past due. Study your supplementary information for cues on peak-season buying. Consult Credit Interchange Reports for possible slowness in the several months immediately preceding statement date.

If payables were about equal to the an-

* Use industry gross-profit percentages to estimate gross profit when actual figures are not available.

swer to this formula and no peak purchases had been made, discounts, if available, were probably being passed. Or, if they were being taken, accounts not subject to discount were probably running past due. (See Credit Interchange Reports.)

If payables were smaller than the answer to this formula, discounts were probably being taken. If Credit Interchange Reports for this period show that discounts were being forfeited, or that creditors were reporting slow payments and past due accounts, *payables may have been accidentally or deliberately understated* on the balance sheet. Investigate further.)

In marginal risks, or when a substantial portion of accounts payable appears past due according to this formula, ask for a complete list of accounts payable showing all due dates.

How many creditors are shown on the list? Was the chief indebtedness to one or two sources of supply? Consult them personally or by phone for their attitude toward the account.

Debts owing to banks

Bank Loans we make the target of a number of questions designed to throw light on the bank's opinion of the risk and on the function of the loan.

When did the loan originate? When will it be due? Has any part of the original loan been paid?

Was it evidenced by single-name paper? Secured by endorsement or guarantee? Whose? Secured by collateral? Secured by assets not listed on this statement? By assets listed on the statement? What?

If previous statements are available, does a similar loan appear on them? Did the bank, when asked, indicate that regular clean-ups had been made? Or that loans were "steady?" From these facts, does the bank credit appear to be a sustained part of working capital, rather than temporary financing?

Why did he borrow?

Did the bank, when consulted, indicate the purpose of the outstanding loan? To finance peak-season inventory? Or peak-season receivables? To finance building expansion? Remodeling? To permit the borrower to take advantages of purchase discounts? (Consult Credit Interchange Reports to see if he did.)

If the bank loan was substantial, were payables relatively small according to the formula given above?

Were other forms of financing being used at the same time: factoring, assignment of receivables to a discount corporation, private loans, etc.?

Was an amount equivalent to 20 per cent of the bank loan on deposit in the bank at statement date? (Most loan officers of banks feel that average balances around 20 per cent should be maintained by the borrower.)

Has the loan been retired since statement date? (Check carefully into the circumstances and results of this retirement if the loan appeared to be a sustained part of working capital.)

Other debts

Notes Payable, Other (usually meaning "other than to banks" is an item we cannot afford to pass over with no questions asked. It is not only important to know who those "others" are but why the loan was obtained. Private loans and discount financing may be used because straight loans from the bank cannot be had.

Who lent the money? When? When is payment due?

(If the loan is from a relative or friend they may be given preferential payment if the management sees trouble ahead.)

Was the loan in round figures, or an odd amount.

(If an odd amount, it may have been given for merchandise indebtedness.)

If due to merchandise creditors, was this a trade acceptance? Is it customary in this kind of business to pay for merchandise by note or trade acceptance? Was the note required by a merchandise creditor? Was the note to pay a past due merchandise debt? When was such debt originally due?

(If any such notes exist for merchandise debt whether current or past due, they should be added to accounts payable when using the formula given above for analyzing the possible past due condition of accounts payable.)

Do these notes represent amounts due for machinery or fixtures purchased? Was it secured by chattel mortgage on such machinery and fixtures. (They usually are, and they usually carry an acceleration clause which makes the whole debt due in the event payments become past due.)

Do they represent advances from officers?

Watch for "advances"

Advances from Officers, or loans from officers, or any similar title appearing on a financial statement merits close investigation. It may appear as a current liability with no explanation, or as a long-term debt with the explanation that it is "not a pressing obligation." If an officer lends money to his company on a long-term basis, or on indefinite maturity, he should be willing to sign a written agreement subordinating its payment to the payment of current indebtedness. If no such agreement is forthcoming, discreet credit treatment requires that it be regarded as a current debt.

Sometimes loans from officers, like debenture bonds, are used as part of permanent capital in lieu of capital stock, as a tax-saving measure: interest on borrowed money can be deducted as an expense; dividends on capital stock cannot be. Such financing is usually easily detected: small capital-stock issue, heavy debenture bonds or officer loans. In such cases, creditors should require that such loans or bonds be subordinated to the debt due general creditors.

Why loans from officers?

Loans from officers should be evaluated, too, in the light of available bank credit. If a bank loan does not appear on a statement, but if loans from officers do, we should not, however, jump to the easy conclusion that bank support was not available. The bank's attitude should be checked. Sometimes, in a closely held corporation, money rates or other factors may lead its officers to lend their own funds rather than to utilize an available line of bank credit. Officer-loans in that case are, of course, an indication of those officers' confidence in at least the immediate future of the business. Questions:

When did the loan originate? When will it be due? Secured? If of indefinite maturity, have officers

subordinated its payment to the payment of the debts due general creditors? If a subordination agreement was in effect at previous statement-date and before, is there evidence that it has not been strictly adhered to? (Compare size of the debt on previous statements with latest statement to see if any reduction was made, contrary to agreement.)

If no bank loan showed on the statement, but officers' loans did, was a line of bank credit available?

Preferred debts

Accruals should appear on the well-prepared statement of almost any sizable business. If a business unit pays its employees on Tuesday of each week, and if the fiscal year ended on Friday, wages and salaries for Wednesday, Thursday, and Friday will have accrued, even though they would not be payable until the first Tuesday in the new fiscal year. They should be set up as a current liability, along with accruals of other expenses which are paid at regular intervals that do not coincide with the accounting period.

It should be observed that items that find their way into this category are frequently *preferred* debts in event of liquidation: wages, salary, taxes. Questions:

What items have been included under this heading? Salaries and wages between last pay-day and end of fiscal year? Did any interest-bearing indebtedness appear on the statement? If so, was accrued interest set up as an accrued liability? Were accrued taxes, including local, State, and Federal, set up in this account? If not, were they shown on the statement as a separate reserve, and included in the current liabilities?

(In this day of multiple taxation, it is hard to imagine any business that would not have some accrued and unpaid taxes at any given date!)

Other preferred debts

We have examined most of the liabilities that may usually be classed as current, but there remains a group which we may describe as trust funds payable, which usually appear on a statement under more specific titles such as Amounts Due Employees (usually savings plans, bond deductions, etc.); Taxes Collected (for taxing units—withholding, sales, excise tax, etc.). Such items, of course, are to be treated not only as current liabilities, but as *preferred*.

KING CANUTE UP-TO-DATE

Funded debt, such as mortgages, bonds, etc., we find it necessary to extensionalize on a number of important points:

When did it originate? When due? Payment requirements: how often, how much? Original amount? Amount paid to date? Have payment requirements been fully met? Interest rate? Were maturing payments for one year following statement date shown as a current liability, along with any overdue payments? By what is the debt secured? If bonds, have sinking fund provisions been met? Do bondholders have voting privileges in event of default?

Reserves

Following the long-term debts on a statement, reserve accounts of various descriptions are frequently found. Usually they belong elsewhere on the statement:

Is it a valuation reserve: depreciation on fixed assets? (Apply against the assets.) Reserve for bad debts? (Apply against accounts or notes receivable, as the case may be.)

Is the reserve for specific liabilities, or accruals? (Treat as a current liability if payable in the year following statement date. Otherwise, as a long-term liability.)

Is it a reserve for a specific contingency? (Treat as a possible liability, current or long term as the specific contingency indicates.)

Note that some businesses set aside a vague "Reserve for Contingencies" with no particular eventuality in mind. It is a sort of anything-can-happen attempt to justify to stockholders the withholding of dividends. Such a reserve is not a liability; it is a part of net worth.

Sometimes reserves are shown on statements to indicate the intention

of making future capital expenditures, such as for new buildings, remodeling, etc. Such reserves should be treated as a part of net worth, since they merely represent a special segregation of a portion of the surplus account. The entire financing potentialities of the business should, however, be examined in the light of the intended expansion indicated by such a reserve, since the mere existence of a bookkeeping figure called a *reserve account* does not imply the existence of dollars with which to execute its purpose.

What is left?

Net Worth will already have assumed a figure fairly close to its proper size if all along the adjustments have been made that have been suggested by the extensional questions in this and the past two months' chapters. A few questions remain to be asked that may bring certain unsuspected facts to light:

If this business unit is a corporation, and preferred stock is a part of the capital structure, are dividends cumulative? Were any in arrears at statement date? What are the sinking fund or other requirements, if any, for retirement of such stock? Have they been met?

If this business unit is a proprietorship originated in the past few years, was any loan shown due to outsiders? If not, has source of starting capital been satisfactorily explained?

(Many times starting capital is wholly or partially borrowed, but not reported as a liability because the owner considers it a personal loan—often from a friend—to be repaid "when convenient." If source of starting capital is unexplained, or the explanation seems unlikely, investigate further.)

Does earned surplus, in the case of corporations, or net worth, in the case of non-corporations, as shown on the immediately previous statement, reconcile with the latest statement, after adding profits earned in the interim and deducting dividends or withdrawals? (If not, ask for a reconciliation statement.)

•

With these questions on net worth we bring to a close our suggestions for extensionalizing a financial statement. As in other chapters, the questions have been made far more exhaustive than is likely to be required in any single case. They have been presented comprehensively to be used to the extent that the particular risk seems to indicate. But in any case the wise credit analyst will make his credit decisions with full awareness that he cannot be sure of what lies behind the doors he didn't open. He can only guess.

I used to know a credit man who examined his financial statements with a few quick pencil strokes. He cut all the current assets in half except cash and Government Bonds, then insisted on a two to one current ratio, and threw out everything else. He saved a lot of 'time' . . .

CONTEST

(*Continued from page 27*)

yzed carefully before the entries could be narrowed down to possible winners. Then these possible winners had to be analyzed again and again until the committee could agree, or at least produce a majority opinion, on which one letter was the winner.

"In a task such as this you need conscientious, willing and able committee-members and I can assure you that the National Association of Credit Men is very lucky in that respect. I cannot pay too high tribute to the members of the National Publications Committee:

R. Lynn Galloway, Eastman Kodak Company, Rochester, New York;

Albert A. Beste, Koenig Coal & Supply Company, Detroit, Michigan;

Miss Lillian Guth, Emerson-New York, Inc., New York;

R. J. Fowler, Pendleton Mills, Portland, Oregon;

Miss Helen M. Sommers, Trojan Hosiery Mills, Indianapolis, Indiana, and

Roderic M. Wilder, Pass & Seymour, Inc., Solvay, New York

"They have been a splendid group of people to work with.

"Once again may I say that it has been a privilege for the members of the National Publications Committee to take part in this contest. I hope there will be others soon. And again congratulations to *all* the contestants on the fine quality of their work."

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